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BUSINESS & COMMERCE

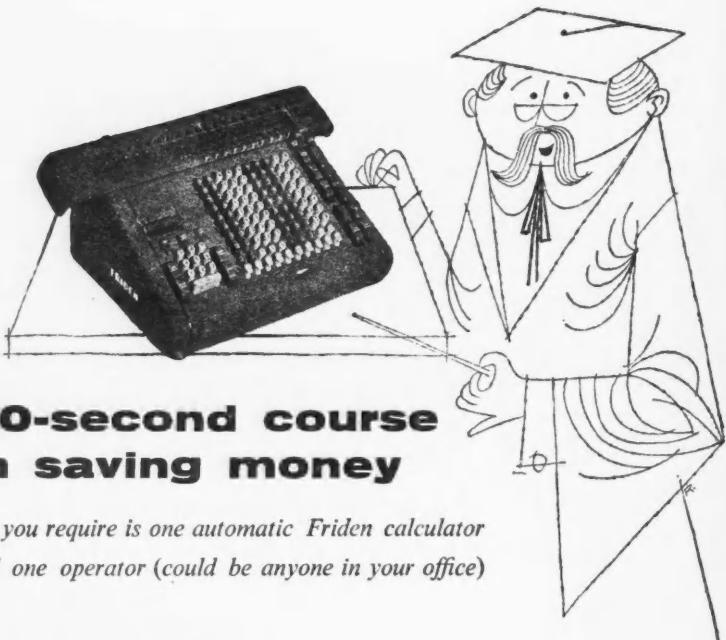
November 1956

THE CANADIAN CHARTERED ACCOUNTANT



- Watchdog of Parliament
- Review of I.D.P. Equipment
- Taxation of Farm Income
- The Nature of Deductible Business Expenses
- More Tax Aspects of Selling A Business
- Terminal Grain Elevator Accounting

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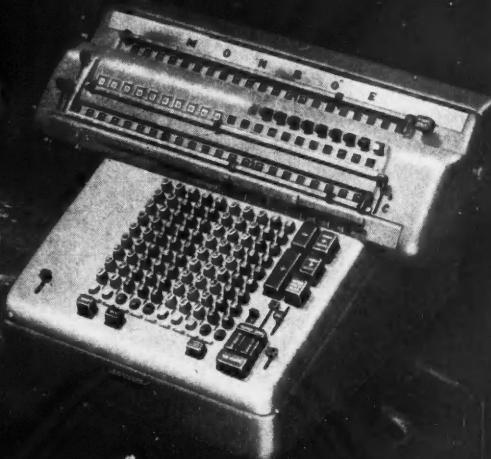
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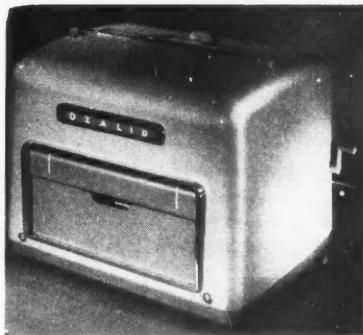
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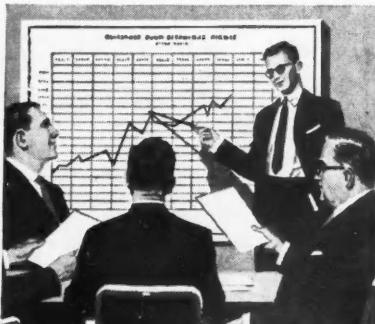
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Commercial Letter

THE CANADIAN BANK OF COMMERCE

January, 1938

The Canadian Economy



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of major industries in textiles and in automobile and other areas of durable manufacture.

The Bank's Index of Industrial Activity, which measures activity in relation to production, showed more than the rate of production, showed much the same trend. The pulp and paper industry, however, was the only one to show a decline. All reported that activity was well advanced from 1932 levels. That in the food products and meat packing industries was well advanced, maintained at about the same level, while textiles were

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THE CANADIAN CHARTERED ACCOUNTANT

VOL. 69, NO. 5, NOVEMBER 1956

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IN THIS ISSUE

IAN STEVENSON, C.A.

In "The Auditor General — Financial Watchdog of Parliament", Ian Stevenson traces the steps taken by British and Canadian Parliaments to assure the independence of the Auditor General's position. He describes concisely the responsibilities of the Auditor General and the work of those associated with him. He uncovers information which should help materially in minimizing the fears of those who are apt to comment upon seeming government extravagance or wasteful expenditures.

Mr. Stevenson's entire career has been in government service, which he joined in 1933 as Corporations' Assessor for the Taxation Division of the Government of British Columbia. In 1935 he joined the office of the Auditor General in Ottawa and headed successively the Crown Corporations' Audit Branch and the Revenue Audit Branch. He was appointed Assistant Auditor General in 1935. Mr. Stevenson obtained his certificate in chartered accountancy in 1932 after being articled with Riddell, Stead, Graham & Hutchison of Vancouver.

J. C. WACHAL, C.A.

Completion of the St. Lawrence Seaway will be a significant factor contributing to the acceleration of grain movement. To the extent that terminal elevators play a large part in such movement, we feel that the third in the series of articles on accounting for the grain industry should be of real value to accountants and business executives. J. C. Wachal in

"Terminal Grain Elevator Accounting" follows up a discussion on the subject which was published in the June issue of *The Canadian Chartered Accountant* under the title "Grain Accounting for Western Canada" and continued in the August issue under the title "Accounting for Country Grain Elevators". He describes the workings of a terminal elevator and the accounting control over the physical movement of grain. He then proceeds to examine the operating costs and operational hazards with which terminal owners are confronted. He gives the reader a vivid picture of the many and varied services which take place from the time the grain arrives for storage to the moment it is transferred into lakeboats or ocean going vessels.

Mr. Wachal is assistant to the treasurer of United Grain Growers Limited of Winnipeg. He was formerly on the Winnipeg staff of Price Waterhouse & Company and has been a member of the Manitoba Institute since 1951.

ARTHUR S. PATTILLO, Q.C.

This month, readers will be interested in "The Nature of Deductible Business Expenses" a paper presented at the Queen's Tax Seminar by Arthur S. Pattillo. Mr. Pattillo strikes hard at his subject. "What has been held to have been the law in Canada, insofar as the ascertainment of cost of sale of goods for the purpose of determining periodic income is concerned, may seem sensible to the Tax Department, the lawyer and the layman and possibly the accountant trained 40 years ago, but it cannot find favour with the modern thinking competent accountant."

Mr. Pattillo is a partner of Blake, Cassels & Graydon of Toronto with whom he has been associated for the

Continued on page 384



The Credit Manager gets a bouquet

"Bill, I'll only take a minute!" The Sales Manager sounded even more urgent than usual.

"Sure thing, Jack, come in and sit down." The Treasurer took off his glasses and regarded his visitor across the desk. "What's your worry this morning?" he asked.

"Worried? Who says I'm worried? I'm happy! Look—" and the Sales Manager emphasized the word with a forefinger stabbed at the desk top, "—it's that new Credit Manager of yours. Do you know how much of our sales increase we owe to him?"

The Treasurer put his glasses back on and literally stared at the other. In his utter amazement, he was incapable of answering. But there was no need. The Sales Manager swept right on.

"Only a few days ago, he came to me and told me we weren't selling Apex Corporation hard enough! Imagine!" The Sales Manager grinned fondly at his own recollection. "Your Credit Manager telling me we're not selling an account hard enough! I nearly threw him out of my office, but darned if he didn't prove it to me! And this morning—" the Sales Manager stabbed the desk top again, "—we sold Apex our biggest order!"

"Congratulations!" the Treasurer's tone of voice was mild.

"Thanks!" said the Sales Manager. He got up briskly. "Well, I just wanted you to know the best thing this company has done in years was to make the Credit Manager's job more important and bring in a really good man to fill it.

Since he persuaded us to insure our accounts receivable with American Credit Indemnity, we've penetrated areas we hadn't touched before!" The Sales Manager became enthusiastic all over again. "Why, we've been able to project our Sales plan a full year ahead!" he cried. "And—since a few days ago—we've begun selling our established accounts harder than ever! Well—see you later!"

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past 12 years. He formerly practised law with McInnes, Lovett & Macdonald of Halifax and was admitted to the Nova Scotia bar in 1933. In 1950 he was appointed Queen's Counsel. Mr. Pattillo was called recently to give expert evidence before the Privy Council in the *Anaconda* case and specializes in labour litigation and tax work.

C. W. LEACH, C.A.

To last month's article on "Tax Aspects of Buying and Selling a Business" we are pleased to add a sequel. In "More Tax Aspects of Buying and Selling a Business", C. W. Leach discusses some of the principal items under Canadian income tax which come to mind when a business is sold. Mr. Leach ends his study by setting out four main conclusions which will be of considerable interest to those involved in this type of transaction. The author is a partner of McDonald, Currie & Company, Montreal and a former governor of the Canadian Tax Foundation.

H. S. BROWN

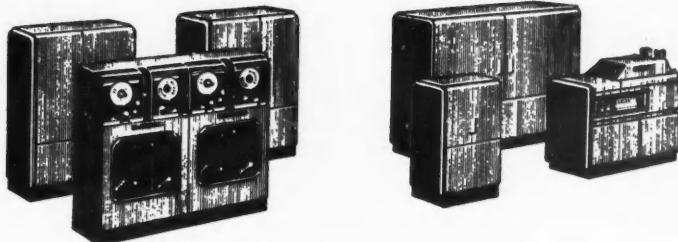
As management becomes more scientific and production in the factory more mechanized, the need increases for control procedures in the office. In "A Review of I.D.P. Equipment" Harry Brown describes some of the equipment more frequently used in Canada which provides the translation link between machines and data. Not only does he distinguish between the different types of machines, he also differentiates between the machines of different manufacturers. The problem of selection is of great importance. The fact that a machine exists for performing a given task does not necessarily mean that in every instance its use is indicated. This is the third in a

Continued on page 386

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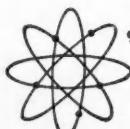
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Continued from page 384

series (see June and September issues) on data processing and further articles will appear in subsequent issues of *The Canadian Chartered Accountant*.

Mr. Brown is supervisor of integrated data processing research with R. L. Crain Limited in Ottawa. He was responsible for setting up an I.D.P. workshop featuring many of the units of equipment dealt with in this review. He was formerly with the Civil Service Commission and introduced punched card accounting methods to that organization.

EDITORIAL

In "Professional Fees", this month's editorial by James C. Thompson, the author makes it plain that there is no predetermined set of weights to apply to every factor affecting fee setting. Rather, the fee for professional services depends upon the practitioner's evaluation of what is fair and it will be understood by the client provided some effort is made to make clear to him the services which have been performed on his behalf.

Mr. Thompson has had a long and active association with the profession. Since 1946 he has been senior partner of Peat, Marwick, Mitchell & Company (Canada) with headquarters in Montreal. He served as president of the Institute of Chartered Accountants of Alberta in 1936 and as president of the Institute of Chartered Accountants of Quebec in 1954. Between 1937 and 1940 he was Director of Public Accounts Inquiry for the Royal Commission on Dominion-Provincial Relations and in 1948 he served as Financial Adviser to the Newfoundland Delegation appointed to negotiate the terms of union with Canada.



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NOTES AND COMMENTS

1957 Accountants Congress

James A. de Lalanne, first vice-president of the C.I.C.A., will give a paper on "Verification of the Existence of Assets" at the 1957 International Congress of Accountants which is to take place in Amsterdam next September. J. Grant Glassco, a past president of the Canadian Institute, will be a member of the panel discussion on "Principles for the Accountants' Profession". A draft program of the congress appears on page 466. Members planning to attend this important gathering will be especially interested in the procedure outlined for obtaining registration and reservations forms.

New Committees Formed

Alex Ballantyne has been appointed chairman of a new C.I.C.A. Committee on a Uniform Code of Ethics. Before forming his committee, Mr. Ballantyne will make a tour of the provincial Institutes of Chartered Accountants in Canada.

A new sub-committee of the Committee on Education and Examinations has been formed to consider long-range educational policy. Its chairman is C. L. King, former executive secretary of the C.I.C.A.

P. D. Leake Research Fellowships

The Council of the Institute of Chartered Accountants in England and Wales has announced that the Universities of Oxford, London and Birmingham have each agreed to es-

tablish a P. D. Leake Research Fellowship to be financed by the P. D. Leake Trust. The object of the fellowships is to provide university facilities for experienced accountants to carry out research in subjects which, in the terms of the trust, "benefit and advance the sciences of accounting and of political economy including the subject of public finance and taxation". The total grant of the trust will be £2000 per annum for an initial period of 9 years, and in each of the three universities the fellowship will be available for 3 of the 9 years.

Gordon Report Due Soon

The Royal Commission on Canada's Economic Prospects will present its findings to the Canadian Government in an interim report by the end of the year, it was announced recently. Ten of the special studies undertaken in conjunction with the Commission's work will also be released. These will include a number of studies on particular industries including primary iron and steel, automobiles, farm implements, electrical apparatus, industrial machinery and textiles. Others to be released will deal with labour mobility, concentration of industry, automation and the taxation of foreign investments.

Tax Collections in Canada

Nearly 5 million tax returns were filed during the 1955-56 fiscal year, according to a recent report from CCH Canadian Limited, and the tax

Continued on page 390

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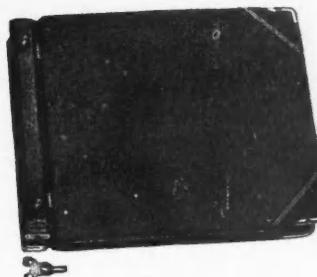
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collected on these returns totalled some \$2½ billion. Nearly half of this figure was contributed by individuals rather than corporations, largely through the "deduction at source" method. Canadian employers acting as unpaid tax collectors for the government turned over \$909 million during the period. On the other hand, the government was required to issue nearly 3 million refund cheques amounting to \$201 million to these same individual taxpayers. This was not because employers tended to err on the side of stringency but because of changes during the course of the year in employees' pay and exemptions status.

Canada Savings Bonds

A new feature marks the current issue of Canada Savings Bonds which has just been put on the market. In order to encourage investors to hold their bonds until date of maturity, May 1, 1969, the coupons bear interest at graduated rates. The first coupon, due in six months, has a rate of 3½% as does the second, due May 1, 1958. The third and fourth coupons bear a rate of 3¾%, the next two 3¾% and the last seven 4%. The average yield is 3.76%.

Eaton to Head American Institute

Marquis G. Eaton, partner of Eaton & Huddle, San Antonio, Texas, was elected president of the American Institute of Accountants at their 69th annual meeting held in Seattle at the end of September. Elected vice-presidents were William S. Deeming, Chicago; Louis H. Penney, San Francisco; Donald P. Perry, Boston; and R. Warner Ring, Miami. John B. Inglis of New York was named treasurer.

At the meeting the American Insti-

tute's 1956 award for outstanding service to the accounting profession was presented to J. S. Seidman, New York C.P.A. Mr. Seidman, a vice-president of the Institute, is author of the four-volume "Legislative History of Federal Income and Excess Profits Tax Laws".

A Research Study by N.A.C.A.

A research report entitled "Accounting for Intra-Company Transfers" has recently been published by the National Association of Cost Accountants. This study deals with policies and methods for pricing intra-company transfers of goods and services in order to determine profit performance of divisional management. It presents practices of 40 leading companies collected in field interviews by the N.A.C.A. research staff, reviewed and evaluated by an N.A.C.A. Committee on Research. This report may be obtained for \$1.00 from the National Association of Cost Accountants, 505 Park Avenue, New York 22, N.Y.

Editor of "The Accountant"

Derek du Pre, editor of *The Accountant*, a leading British accountancy journal, has resigned in order to become joint secretary of the Institute of Cost and Works Accountants.

In the News

The winning car in the annual international sports car 24-hour circuit race held at Le Mans, France, was entered by Scottish chartered accountant David Murray. It is the first time since the war that a privately owned car has won this race.

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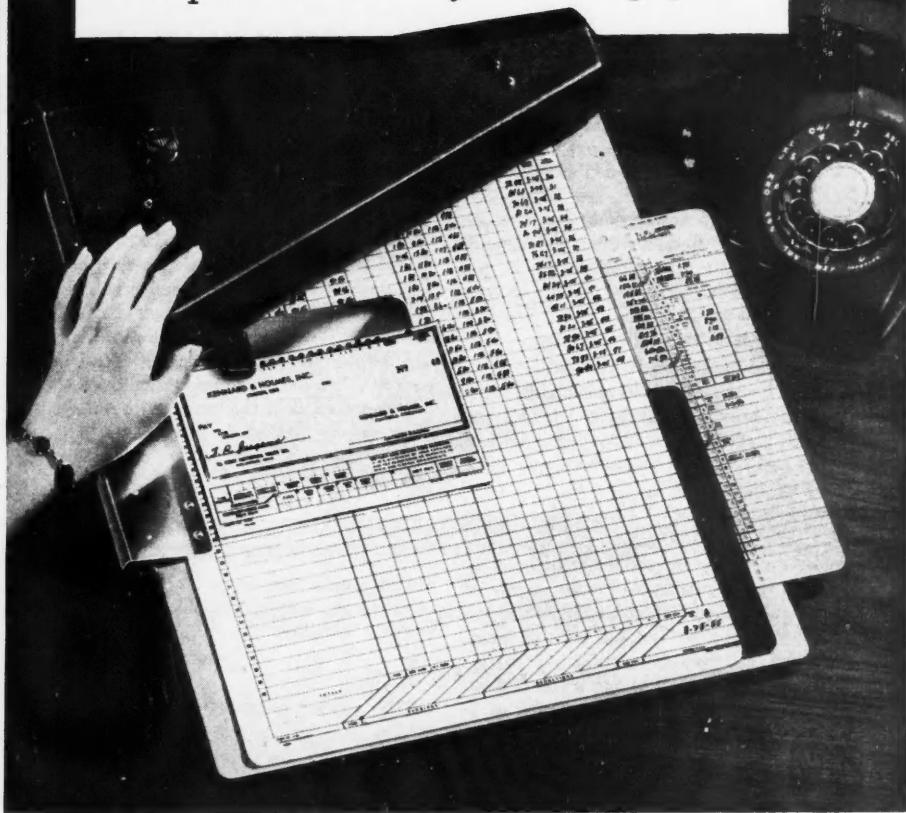
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LETTERS TO THE EDITOR

Toronto, August 20, 1956.

Sir: I wish to commend the editorial in the August issue entitled "About Tomorrow's Auditors" since it is designed to encourage junior audit assistants who are carrying on work which I am sure all of us at some stage in our career found rather monotonous. However, there is one statement in the editorial which, taken out of its context, might mislead individuals who are not familiar with modern auditing practice.

I refer to the sentence "The auditor is appointed by the shareholders and his statutory responsibility is discharged by his services in preventing and detecting fraud and errors and certifying to the accuracy of the financial statements."

With the growth of business enterprises in Canada and the substantial volume of transactions in even medium-sized corporations, it is not practicable for the auditor to check all detailed transactions of a business and the shareholders' auditor must of necessity limit his work to a review of the internal accounting control and a test of sufficient transactions to form an opinion as to whether or not the accounts of the client properly reflect its business transactions.

Another feature of modern business is that frequently management is carried on by a group which has a relatively small share interest on behalf of a large number of shareholders who are not actively connected with the corporation.

For these reasons it is now more apparent than it may have been in the past that the shareholders' auditor's prime responsibility is to make an independent examination of the company's financial position and results using such audit techniques as may be necessary and to report to the shareholders on the results of his examination. It is certainly not now (if it ever was) the responsibility of shareholders' auditors to prevent and detect fraud or error in a company's

accounts. Obviously suggestions for improvements in internal accounting control which may prevent or lead to the early detection of fraud and error will be made by shareholders' auditors where necessary and fraud and error may be detected incidental to the examination by the auditor, but he should not be expected to detect such conditions unless they were of sufficient magnitude to impair the company's financial position or distort earnings for the accounting period as compared with previous periods. It is the prime responsibility of accounting officials of the company to arrange its accounting system in such a way as to lead to the early detection of defalcations and errors.

ST. ELMO V. SMITH, C.A.

Toronto, Sept. 17, 1956

Sir: I would like to add a further comment on the sentence in the August 1956 editorial to which Mr. Wilson and others take exception. The sentence quoted by him read:

"The auditor is appointed by the shareholders and his statutory responsibility is discharged by his services in preventing and detecting fraud and error and certifying to the accuracy of financial statements."

The Dominion Companies' Act (1934) states:

"The auditors shall make a report to the shareholders — (b) whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company." (section 120, 1.)

This is no doubt the basis of the editorial sentence, for the opposite of true is false, and of correctness, error.

Continued on page 394



The Baron's Reply . . .

A prominent leader of finance, the late Baron Rothschild, was once asked for advice on investments by a young man. The Baron replied, "Young man, do you wish to eat well or sleep well?"

The Baron's question is pertinent in making an investment. Some investors prefer safety, others income, and some wish growth. While it is often difficult to combine safety, income and growth in a single security, it is possible to realize all of these factors in a well-balanced portfolio.

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If we eliminate from the auditor's work on financial statements error or fraud

- a. by the employees in their relations with the company
- b. by the management and/or directors in their relations with the shareholders
- c. by the company in its dealings with government departments and/or third parties in general

what significant duties are there left for him to perform?

I suggest that by the use of phrases such as "presenting fairly" and "making such examination of the records as we considered necessary in the circumstances" we have arrived at more civilized ways of saying the same thing as the editorial. For what else is the examination necessary?

It would be a pity, I believe, if a more refined approach in the use of language should blur our vision of the underlying realities. There is a legitimate area of difference of opinion between the auditor and the client in the interpretation of accounting principles and statement presentation, but the judgment necessary when such circumstances arise should not be confused with the responsibility assumed by the auditor in reporting to the shareholders that, in his opinion, based on generally accepted accounting standards and auditing procedures and the information made available to him, the balance sheet is free from error or deliberate falsehood (fraud).

EDWARD FURLONG, M.A., C.A.

Ste. Foy, Sept. 25, 1956

Sir: In his address to the annual convention of the C.I.C.A., held in Halifax recently, W. G. Mann of the Bank of Montreal stressed the importance of human relations skills as a prerequisite in the ever-broadening scope of services expected from the chartered accountant today.

It might be of interest to your readers to know about a step recently taken by

the Faculty of Commerce of Laval University to equip its accountancy students with the type of training now considered so important in view of the increased services expected from our profession by the business world. Second-year graduates entering our accounting department this September have faced an integrated program of advanced accounting, auditing, cost accounting, taxation problems and accounting theory. To supplement this, new courses in human relations, finance and control have been added this year in cooperation with our business administration department. The interrelation of accounting and administrative problems is stressed and the courses are given by the "case method" of instruction. (Though, we realize that such courses are not directly intended to help students pass the C.A. examinations, we hope that sometime in the near future they will be examined on those subjects as well.)

The Department's decision was predicated on the conviction that the public accountant must be more than a tactician qualified in the execution of certain specific tasks. His range of vision must go beyond the purely technical aspects of accounting to seize upon the underlying significance of the figures in his client's books. He must then be able to communicate his ideas if his conclusions are to be of any help at all. As he must deal at all levels with human beings, adapting himself to their diverse temperaments and satisfying their various aspirations, he must be equipped with a deep knowledge of human nature. In other words, the Faculty of Commerce strongly believes that the accountant must not only be a specialist in accounting theory and practice. He must also be able to grasp the overall picture of a client's problems and develop an administrator's way of thinking about them.

ALPHONSE RIVERIN, C.A.,
*Secretary, Accounting Department,
Faculty of Commerce,
Laval University.*

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Fall and the Future . . .

Whatever the weather nothing seems to end the summer season quite so finally as the return of children to school and the knowledge that for most, vacations have finished for another year.

Except for casual discussions of where to go next year, the relaxed routine of vacations is replaced with more serious thoughts. Savings are checked and consideration is given as to how they should be used.

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Editorial

PROFESSIONAL FEES

EVERY PROFESSIONAL accountant throughout his career is faced with the problem of determining a reasonable fee for his services. His fee should bear a definite relationship to the services rendered. For satisfactory services a reasonable and fair fee will always be paid. It should never be forgotten that a satisfied client is a continuing client and he should be satisfied both with respect to the work done and the fees charged.

Engagements, generally, fall under two main categories, namely, routine audits and special work. While professional skill and competence are primary requisites in both instances, the amount of time spent on the work is an important factor in the case of routine audits. In special and consulting work the time factor is of secondary importance.

Routine audits are the backbone of any accounting practice. These require a team or group effort working under proper direction. Good planning and supervision avoid the unnecessary use of staff. Fees for first engagements are usually arranged on the basis of hourly or per diem rates for the principal in charge and for each class of assistant with an estimate, but not a quotation, of total charges. The rates should be sufficient to recapture salary costs, overhead and a reasonable profit and will vary according to localities. After the completion of the first audit, fees are frequently arranged on a fixed basis, subject to annual review as conditions warrant. It follows, therefore, that adequate records should be kept of time spent on each engagement and the type of work assigned to each member of the staff. Before billing, these records should be studied. Time may be out of line with the size and scope of the engagement, and the records should be reviewed to determine the underlying causes.

The client may be at fault, because of unsatisfactory records and lack of cooperation from his employees. Lack of supervision and inadequate planning on the auditor's part can lead to unproductive time being spent on the engagement. It is only after all these and possibly other factors have been considered that the account should be rendered. In rare instances a client's financial position may warrant a reduction from regular charges.

Higher fees are justified for special work than for routine audits. The very nature of the work requires special skill and experience which can only be gained through years of practice. Occasionally full time service is required for extended periods involving the absence of partners from headquarters for long periods. This may result in the loss of other engagements and is a material factor when arranging fees for exclusive services.

Every engagement, whether regular or special, involves the professional reputation of the accountant and his firm. Financial statements are used for the purpose of obtaining credit and the lender is entitled to rely on the accountant's certificate. Alleged failure to disclose material facts in a prospectus may result in a damage suit for negligence. Even if successfully defended, damage suits can involve heavy legal costs and, what is more important, some loss of reputation. The question of risk is of prime importance and should be given due weight in determining a proper fee.

Tax engagements, court testimony, management surveys and system work require special knowledge, and fees should be charged at higher rates than for routine work.

Fees should not be arranged on a contingent basis. The professional accountant should only seek a fair fee for his services irrespective of financial gains to his client. Conversely, if no gain results, the accountant is still entitled to his fee. Any other conduct is deemed unprofessional, under our code of ethics.

For every engagement there should be a clear cut understanding between the accountant and his client as to the basis on which fees will be charged. Bills should be rendered promptly as the engagement progresses. This procedure will avoid subsequent misunderstandings and possible unpleasantness at a later date. It has the further advantage of assisting the accountant to meet his business expenses.

Honest, reliable, competent services will always be recognized by the payment of reasonable fees. There is no general yardstick, as fees in the final analysis will depend on the value of services rendered. Special knowledge and experience deserve and receive recognition and the practitioner who equips himself to offer services the public seeks need have no fears as to his future in the profession. There is no greater satisfaction to the professional accountant and his client than the knowledge that an engagement has been well done. Fees under such circumstances present no problem.

The Auditor General - Financial Watch-dog of Parliament

IAN STEVENSON

IN THE COURSE of his judgment in the *Kingston Cotton Mill* case, heard before the United Kingdom Court of Appeal in 1896, Mr. Justice Lopes likened an auditor to a watch-dog. Today that is the role which the Auditor General of Canada plays for the House of Commons. He stands ready to warn of threatened danger if and when expenditures are incurred by the government for purposes other than those specifically designated by the House.

The audit of the national accounts by an officer of Parliament, independent of the government of the day, was one of the steps of the long historic struggle by which the British House of Commons eventually gained control over the public treasury. This audit, however, was not given statutory recognition until the passing of the United Kingdom Exchequer and Audit Departments Act of 1866.

In Canada the Consolidated Revenue and Audit Act of 1878 was modelled closely on the U.K. Act. It established the post of Auditor General and provided that the holder of this office should report to the House of Commons annually upon the results of his audit of the accounts of Canada.

Practical means of assuring the Auditor General his independence were not overlooked. After being commissioned by the Governor in Council, under the Great Seal of Canada, he could be removed from office only as a result of a joint resolution of the House of Commons and the Senate. As with judges, his salary was made a continuing statutory charge, instead of depending on annual parliamentary appropriations. His position has remained undisturbed by the revision of the Consolidated Revenue and Audit Act in 1931 and by the Financial Administration Act which was passed in 1951.

Parliament's broad direction regarding the audit to be performed by the Auditor General is found in section 67 of the Financial Administration Act.

Audit of Expenditures

All payments by the government are made through the Comptroller of the Treasury, a special officer of the Department of Finance, on the basis of vouchers approved by departmental officers. Hence it is possible to audit expenditures by means of more limited test-checks than would have

been the case if payments were made by departmental accounting officers (the pre-1931 practice). The extent of the test-checks varies according to the type of departmental activity, nature of the financial transactions, effectiveness of the internal control and the degree to which previous audit experience was satisfactory.

Audits of departmental expenditure accounts are ordinarily made on a continuing basis by audit staffs stationed permanently in the various departments. Because the staff of the Comptroller of the Treasury have already made a detailed check before rendering payment, the audits need not be directed primarily toward the discovery of arithmetical errors. Rather, they are to ensure that the outlays have been charged to the proper parliamentary appropriations and are in accord with any governing statutory directions as well as with appropriate executive or administrative sanction. Instances where requirements have not been met are brought at once to the attention of the Comptroller's representative in the department concerned, so that the defects may be remedied, if possible, before the accounts are closed for the fiscal year.

By tradition, audit officers are supposed to hold administrative officers at arms length. But this attitude is now out of date and today a harmonious relationship with departmental and treasury officers is quite important. The "Audit Office Guide" adjures auditors to remember that "a successful audit requires cooperation of administrative staff; therefore, auditors should conduct themselves in a way that elicits good will and assistance". Because of the variety of their experience, auditors are frequently

consulted by departmental and treasury officers on the propriety of proposed expenditure transactions or suitability of prospective accounting entries. On the understanding that the administration will be solely responsible for decisions finally taken, opinions are freely expressed or suggestions made. This extra-statutory service does not prejudice the value of the audit; indeed, it renders the audit more effective.

Audit of Revenues

Accounting for revenue is a departmental responsibility. Sometimes, however, departments arrange to have the necessary accounting service performed by representatives of the Comptroller of the Treasury. In either case, the audit is directed toward establishing by test that the requirements of revenue statutes are being observed and that satisfactory procedures are being followed in levying assessments, recording balances due, effecting collections, and ensuring that collections are promptly deposited to the credit of the Minister of Finance in his capacity as Receiver General. It is also ascertained by test that there is statutory authority for all refunds and remissions made or balances receivable written off.

Audits of the larger revenue departments involve periodical examination of various headquarters' activities, together with outside examination at all taxation district offices, principal customs-excise ports and main post offices throughout the country. These are planned so as to complete the cycle in from three to five years. They too are made on a test basis, the extent of which depends on the work done by the internal audit or inspection staff of each department.

Wherever it is observed that a departmental directive regarding the assessment, collection or allocation of the revenue is not being adhered to, or the procedures followed are otherwise unsatisfactory, the circumstances are directed to the attention of the appropriate departmental or Treasury officer.

Audit of Stores Accounts

Stores accounts maintained by the various departments are also examined periodically in like manner. Test counts of selected items are made and the results compared with the relative balances in the stores accounts. It is ascertained whether shortages were written off only after suitable investigation was made and appropriate authority obtained. It is likewise verified that surplus stores have been reported by the responsible departments, in accordance with the provisions of the Surplus Crown Assets Act, for subsequent disposal under that Act.

Verification of Statements of Assets and Liabilities

Section 64 of the Financial Administration Act provides for the inclusion in the public accounts of a statement, certified by the Auditor General, "of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the position of Canada as at the termination of the fiscal year". A continuous audit examination is made of the entries in the asset and liability accounts upon which the year-end statement is based. These accounts, kept by the Department of Finance, summarize those transactions which are verified throughout the year in the course of the departmental audits and are detailed in "open accounts" maintained

by the Treasury officers in the various departments. At the close of the fiscal year, the statement of assets and liabilities is checked from the balances in the summary accounts, which are agreed with the year-end balances of the detailed departmental accounts. It is established that the various balances have been suitably classified for purposes of the statement. Cash and security balances are verified by direct confirmation from the depositories.

Audits of Accounts of Crown Corporations

Of the 24 Crown corporations listed as "agency" or "proprietary" corporations in the Schedule to the Financial Administration Act, 20 are required to be audited by the Auditor General. Either there was an explicit statutory direction for the audit in the Act which established the individual corporation, or, in the case of companies incorporated under the Companies Act, a resolution was passed by the shareholders (i.e. the responsible Ministers, who hold all but directors' qualifying shares). Among the "agency" corporations thus audited are: Atomic Energy of Canada Limited, Canadian Arsenals Limited, Canadian Commercial Corporation, Crown Assets Disposal Corporation, Defence Construction (1951) Limited, Federal District Commission and the National Harbours Board. The "proprietary" corporations include: Canadian Broadcasting Corporation, Canadian Farm Loan Board, Canadian Overseas Telecommunications Corporation, Eldorado Mining and Refining Limited, Export Credits Insurance Corporation, Northern Transportation Company Limited, Polymer Corporation Limited and the St. Lawrence Seaway Authority.

Crown corporations are required, by the Financial Administration Act, to prepare annual financial statements, including a balance sheet, a statement of income and expense and a statement of surplus "containing such information as, in the case of a company incorporated under the Companies Act, is required to be laid before the company by the directors at an annual meeting". The audits of the accounts of these corporations are, accordingly, made in essentially the same manner as the audits of commercial corporations, although there are differences in emphasis. For example, a transaction which might be in order from the corporate viewpoint might be of concern from the Parliamentary viewpoint, and although not necessitating comment in the corporate audit report, might have to be mentioned in the Auditor General's report to the House of Commons. On the other hand, the verification of the income tax liability (in the case of the proprietary corporations) is of less concern than if a commercial corporation was being audited.

Queries arising in the course of the audit are directed to the attention of the Crown corporation's accounting officers in order that appropriate adjustments might be made before the accounts are closed for the year. Wherever possible, differing views regarding the form of presentation of the financial statements are reconciled so that an unqualified audit report may be given. In his general report to the House of Commons for 1954-55, the Auditor General was able to state that it had not been necessary to qualify any of the corporate audit reports, except for one very minor qualification.

The corporate audit reports are

made in conformity with the requirements of section 87 of the Financial Administration Act. That section states that the auditor must report annually to the appropriate Minister on the result of his examination of the accounts and financial statements of a corporation. He must make his report in the form prescribed, which includes calling attention to any "other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament". A copy of the audit report is required by the Act as part of the annual report of the corporation to the appropriate Minister. The Minister in turn is obliged to lay the report before Parliament.

Audit Reports to the House of Commons

Section 64 of the Financial Administration Act requires that the Auditor General must certify the statement of assets and liabilities of Canada at the close of the fiscal year and the related statement of expenditures and revenues for the year, as published in the public accounts. He gives his audit certificates subject to the observations in his annual report.

The principal reporting direction of the Auditor General, however, is contained in section 70 of the Act which provides that he shall report annually to the House of Commons on the results of his examinations and requires him specifically to call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
- (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,

- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money.

In addition to these specific matters, the section further states that the Auditor General shall call attention to any other matter which he "considers should be brought to the notice of the House of Commons". In practice, it is generally under this broad reporting direction that the Auditor General makes his annual observations to the House. However, he is usually able to keep his criticisms small in number because the Comptroller of the Treasury maintains a very high standard of expenditure control and because irregular transactions noted in the course of the audit are often adjusted before the accounts are closed for the year.

The matters most frequently reported upon are financial transactions which, in the audit view, have contravened a statutory direction or are out of harmony with established constitutional usage. Where an honest difference of opinion exists, the facts are presented in the report and a statement is given of the viewpoint of the department concerned.

Sometimes the Auditor General suggests a change involving financial policy. For example, several years ago he recommended that consideration be given to making the Post Office Department a Crown corpora-

tion — as had been done in the United Kingdom — with a view to showing the financial results of its activities more effectively through the adaptation of commercial accounting principles. Occasionally, a comment is made regarding an observed instance of seeming extravagance or wasteful expenditures. Here, of course, discretion is carefully exercised.

The Auditor General's annual report is ordinarily tabled in the House of Commons simultaneously with the public accounts, which comprise the government's financial report for the year, the summary financial statements and detailed statements of departmental revenues and expenditures, together with the financial statements of the Crown corporations. On being tabled, the public accounts and the Auditor General's report may be referred by the House to its 50-member Public Accounts Committee. While a commercial auditor is only rarely examined on his reports, the Auditor General is ordinarily the principal witness before the Public Accounts Committee. His report is studied by the committee, paragraph by paragraph, and he is called upon to answer any questions put to him.

Because of specific reporting directions imposed upon him by statute, and because of the magnitude and variety of the government's financial transactions, the Auditor General will likely never find himself in the happy position of being able to give an unqualified audit report. But his aim is, and will undoubtedly continue to be, to maintain relationships with responsible administrative and accounting officers on such a footing that necessary audit observations are kept to a minimum.

The Nature of Deductible Business Expenses

ARTHUR S. PATTILLO, Q.C.

THERE ARE TWO broad classes of deductible business expenditure. The first consists of business expenses which are deducted ordinarily from the gross receipts of the business to arrive at profit. These may be called "ordinary business expenses". The second is composed of those whose deduction is authorized by a specific provision of the Income Tax Act. Examples are capital cost allowance, depletion allowance, interest on money borrowed for the purpose of earning income, certain specified reserves, employers' contributions to pension plans, etc.

Expenses of the first class give rise to most of the litigation concerning deductibility, and it is in this area that differences of opinion arise between the Department of National Revenue and the taxpayer and his professional advisers. There is no specific provision in the Income Tax Act which provides for the deduction of ordinary business expenses such as wages, rent, cost of goods sold, etc. in computing taxable income from a business.

There are, however, two bases of reasoning upon which ordinary busi-

ness expenses can be claimed to be deductible. The first is in the initial charging sections of the Income Tax Act.

Section 2 of the Act imposes a tax on the *income* of a person resident in Canada; section 3 provides that the income of a taxpayer includes income from all businesses of the taxpayer; and section 4 defines income from a business as the *profit* therefrom for the year. The taxable income of a business is therefore its profit for the year. Thus the starting point for the calculation of the tax due on business income is first to arrive at the profit from the business by deducting from gross receipts the various costs incurred in earning them. The deduction of ordinary business expenses, although not specifically provided for in the Income Tax Act, is therefore necessary as a first step in order to arrive at the taxable amount in respect of income from a business.

The second ground upon which the deduction of ordinary business expenses can be justified is by inference from the words of section 12(1) (a) of the Income Tax Act. It provides that no deduction shall be

made in computing income in respect of an expense *except* to the extent that it was made for the purpose of gaining or producing income from the business. This provision often operates as a limitation on deductibility, since exceptions, to be deductible, must not only be a proper deduction from gross receipts in order to arrive at profit, but also be incurred *for the purpose* of earning income. As a matter of interest, the corresponding English statute provides in the same negative fashion that expenses must be incurred for the *purposes of the trade*, which may be a somewhat broader test.

The question whether a given item, not specifically provided for in the Income Tax Act, is a proper deduction in calculating the profits upon which income tax is to be charged is often debated between assessor and taxpayer. Here some guidance may be found in the numerous court decisions concerning deductibility of business expenses.

Effect of Court Decisions

One of the principles the Courts have laid down is that a payment to secure a lasting advantage is not deductible.

There is a prohibition in section 12(1)(b) of the Income Tax Act against deduction as a current expense of a payment on account of capital. The courts have held that where an outlay is made "with a view to bringing into existence an asset or advantage for the enduring benefit of a trade" (*British Insulated and Helsby Cables Ltd. v. Atherton* (1926) A.C. 205 per Viscount Cave L.C. at 213), such an outlay is made on account of capital.

Thus where a taxpayer paid a large sum of money to purchase a contract

which would ensure a supply of raw material for the business for a number of years, the courts held that such payment secured for the business a lasting benefit and was on account of capital and therefore not deductible, notwithstanding the fact that the accountant or businessman would say that the cost of obtaining the contract was really a cost of inventory, to be charged off against the units of raw material purchased under the contract (*The Southam Company Ltd. v. M.N.R.; John Smith v. Moore; Seven-Up v. M.N.R.*).

Where one newspaper purchased its competitor, the purpose being to stop competition by discontinuing the competing paper, the court held that an enduring benefit had been obtained and the outlay was therefore on account of capital and not deductible (*Associated Newspapers Ltd. v. Federal C. of T.*).

Another example is the cost of obtaining commercial trucking licences or liquor licences, the benefit of which, through ready renewal or otherwise, commonly extends beyond the taxation year. If such licences are for a fixed period, their cost can be written off by way of capital cost allowance, but if they are not for a fixed period the cost of obtaining them is probably a cost of obtaining a lasting benefit and accordingly a non-deductible capital outlay. This cost must of course be distinguished from the annual fees payable thereunder, which are ordinarily allowed as a deduction.

Perhaps the most important proposition which the courts prior to 1955 had laid down concerning deductibility of business expenses was that *prima facie*, and subject to any statutory prohibition, the ordinary and

commonly accepted principles of business and accounting practice should determine what items fall to be deducted in calculating profit from a business.

As long ago as 1892 it was said by the House of Lords that "profits and gains must be ascertained on ordinary principles of commercial trading" — (*Gresham Life Assurance Society v. Styles* (1892), A.C. 309 at 316 per Lord Halsbury L.C.)

Again in 1915, the House of Lords approved the statement that "profits and gains must be estimated on ordinary principles and commercial trading by setting against the income earned the cost of earning it, subject to the limitations prescribed by the Act" — (Earl Loreburn L.C. in *Usher's Wiltshire Brewery v. Bruce* (1915), A.C. 433 at 444; 6 T.C. 399 at 419).

Today it is not a complete answer to a disallowance of a deduction by the Department to establish that the deduction sought is proper according to sound accounting practice and is nowhere prohibited in the Income Tax Act. The deductibility of the expense must pass the further test that it be in the opinion of the Court a "proper debit item" (per Lord Sumner, *Usher's Wiltshire Brewery v. Bruce*, 6 T.C. at 436).

This the Judicial Committee of the Privy Council made very clear in the *Anaconda* case and it is this approach which has now thrown our law into confusion.

It is not enough to know that accepted accounting principles permit certain deductions to be made on ascertaining income. One can only safely advise if one knows what the Department of National Revenue or the courts will permit, but a depart-

mental practice can be changed tomorrow.

What is Income?

Our law should be changed so that accepted accounting principles do apply in ascertaining income and that as accounting principles change the ascertainment of income changes also.

Widely fluctuating prices, large public companies trading in corporate securities and the rise and strength of labour call for an entirely different approach to the balance sheet and profit and loss statement from that of 40 years ago.

Income or profit was the objective of the business man before the days of income tax. It was this objective that the Crown sought to tax but from the very commencement it sought to do so annually.

In the early days of income tax the rates were not high and to the business man and his banker the ascertainment of accurate periodic income or profit was not nearly as important as his net worth position. Accordingly much more emphasis was placed on the balance sheet than on the profit and loss statement.

The approach of the business man, the banker, and the independent professional group that became known as accountants was that the balance sheet must err on the side of conservatism and must tie in with the periodic profit and loss statement.

This original concept, which contains some fallacies, continues to rule from its grave. Under present economic conditions in Canada it results in the ascertainment of annual income or profit which does not reflect as accurately as possible the operations of the business during the period under review.

Perhaps it is heresy to say that the balance sheet concept and its tie-in to the profit and loss statement is the only justification for the accounting principle of "cost or market whichever is lower" which is recognized in section 14(2) of the Income Tax Act. But what other possible justification can there be for taking into consideration in ascertaining periodic income a loss not incurred in the period and which may never be incurred?

There is no quarrel with the idea of requiring the lower market value to appear on the balance sheet. It should. However, where is the logic or reason for getting it into the periodic profit and loss account?

The balance sheet concept is a bricks and mortar concept. A value must be placed on all visible assets. It is this thinking that causes trouble when one of the assets is inventory on hand or stock in trade and the value placed on it is reflected in the profit and loss statement.

The Department of National Revenue says the correct value, if possible of ascertainment, to be ascribed to that inventory is its identifiable cost or present market value whichever is lower. The Privy Council in the *Anaconda* case said the Department was right.

The Department recognizes that it is seldom possible to identify costs, so it says that the assumption to be used must be the one that comes the closest to this. Again the Privy Council says the Department is right.

One can dress this theory up in the fanciest clothes and give it the longest names but it really is the theory of the physical flow of goods and stems entirely from the balance sheet approach.

Need for a Change

What has been held to be the law in Canada insofar as the ascertainment of cost of sale of goods for the purpose of determining periodic income is concerned may seem sensible to the Tax Department, the lawyer and the layman and possibly to the accountant trained 40 years ago, but it cannot find favour with the modern-thinking competent accountant.

The reasons for suggesting this are three-fold:

1. The law in Canada now is that in arriving at cost of sales the inventories must be costed at identifiable cost or an assumption employed which comes closest to it.
2. It can no longer be said that in ascertaining income accepted accounting principles are to be applied unless the Income Tax Act expressly says otherwise.
3. The development of the idea of income for corporate purposes and income for tax purposes will likely only add to the confusion of the lay investor.

In these days of fluctuating prices the business man who is a processor of raw material, the price of which is not under his control, cannot long remain in business unless he matches his purchases to sales and sells on replacement cost of his raw material content plus a profit in a rising market.

To prepare his profit and loss statement as the Department requires him to do for tax purposes means that an increase in price of raw material probably will increase profits; a decrease will reduce them or result in a loss.

This result may not mislead management but it can and does deceive shareholders and the public. In times of increase in prices it helps to create unwarranted optimism. The reverse is true in times of falling prices.

In the interests of the national economy such a situation should not be continued. Certainly a government should not knowingly require it.

Any concern the Department of National Revenue might feel about permitting the accounting profession to say what principles should be applied in ascertaining income can be assuaged by the knowledge that there is a safeguard in the courts which would have to be satisfied as to the facts.

Unless such a change is made, the original concept of the income tax is gone, and to call the tax an income tax is a misnomer. It is rather a tax on an annual sum ascertained in accordance with specific provisions of the Act and accepted practices of the Department, some of which are anomalous.

Some Examples

A few illustrations will exemplify the point:

(a) *Advertising expense* — This is commonly allowed as a normal commercial expense but at least part of most advertising dollars are spent to build goodwill or trade reputation, both of which are clearly on capital account.

(b) *Retiring allowances* — In practice the Department usually allows the deduction of a voluntary retiring allowance paid by an employer. Such a payment hardly can be said to meet the test of having been laid out for

the purpose of earning income, since the services in respect of which it is presumably paid have already been performed and fully compensated. If we argue that the habitual payment of retiring allowances encourages employees to stay with the concern, in this light the payment is toward building goodwill at least to a degree. It might be argued that the payment of retiring allowances is really an adjustment of real wages cost, but in view of the fact that a retiring person is no longer an employee, this seems a little difficult.

(c) *Death benefits* — The same comments apply to death benefits as to retiring allowances, except that death benefits are not even paid to the employee and therefore the argument based upon adjusting real wages cost is not available.

(d) *Cost of fire insurance* — Fire insurance premiums are commonly allowed as a normal commercial expense, and yet it would be hard to imagine a payment which is more completely within the express prohibition of section 12(1)(b) being a payment on account of capital. Wages of watchmen fall in the same category.

(e) *Convention expenses* — Convention expenses were allowed in practice until a recent decision of the Income Tax Appeal Board which has now been cured by legislation. The Income Tax Appeal Board held that expenses of attending conventions were not deductible as amounts laid out for the purpose of earning income, on the ground that they were too remote from the income earning process.

These and other examples of expenses commonly allowed in practice should be provided for in the In-

come Tax Act. It is obviously less satisfactory to a taxpayer to commit himself to a payment relying upon a practice of officials of the Department as to its deductibility, than if the deduction is clearly allowed as of right by a provision of the Income Tax Act.

Specific Deductible Expenses

It is fair to say that during the period of the last 15 years the variety of deductible expenses and the test of their deductibility has been broadened.

The Income Tax Act now provides for a number of specific deductions, which provisions have been added by amendment in recent years. Examples of these are:

- (a) One-half of the fees of investment counsel (s. 11(13)).
- (b) Employers' contributions to profit sharing plans (s. 11(1)(r)).
- (c) Certain special reserves (s. 85B).
- (d) Mortgage reserves (s. 85G).
- (e) Expense of issuing shares or borrowing money (s. 11(1)(cb)).
- (f) Convention expenses (s. 3(4) Bill 418 (1956) adding s. 11 (1)(ia) to the Act).
- (g) Payments to supplemental unemployment benefit plans (guaranteed annual wage) (s. 19 Bill 418 (1956) adding s. 79A to the Act).

Some Recent Decisions

The decisions of the Canadian courts since 1940 indicate a trend toward a broader and more liberal test of deductible business expenditure.

Under the Income War Tax Act, an expense, in order to be deductible, was required to be "wholly, exclusively and necessarily laid out or expended for the purpose of earning the in-

come" (s. 6(1)(a) Income War Tax Act).

In *Dominion Natural Gas v. M.N.R.* (1940), 41 C.T.C. 155 the Supreme Court of Canada very strictly construed those words to mean that in order to be deductible, expenses must be "working expenses", that is, expenses incurred in the process of earning the income (see p. 158 of the report cited). In that case the company was denied a deduction in respect of legal expenses incurred in defending in a court action its franchise to distribute gas in part of the City of Hamilton.

As part of the trend toward a broader test of deductibility, it is interesting to note that the *Dominion Natural Gas* case has not been followed in the more recent Exchequer Court decisions in *Kellogg Company of Canada Ltd. v. M.N.R.* (1942), C.T.C. 51 and in *Hudson's Bay Company v. M.N.R.* (1947), C.T.C. 86. In the *Kellogg* case the court allowed a deduction for legal expenses incurred in defending in a court action the copyright to the name "Shredded Wheat". In the *Hudson's Bay Co.* case the court allowed the company to deduct legal expenses incurred by it in suing a Seattle store to prevent it using the name Hudson's Bay Fur Company. It is difficult to reconcile the opposite results reached in the *Dominion Natural Gas* case on the one hand and the *Kellogg* and *Hudson's Bay Company* cases on the other, unless we accept what was said in 1947 by Anger J. in the *Hudson's Bay* judgment, that the doctrine as to deductibility has "evolved appreciably" since the *Dominion Natural Gas* decision in 1940 (1947 C.T.C. at 132).

Another early decision under the

Income War Tax Act was that of the Privy Council in *Montreal Coke and Manufacturing Co. v. M.N.R.* (1944), C.T.C. 94. In that case the Privy Council disallowed the deduction of the costs of refunding funded debt of the company, by which refunding operations considerable amounts of interest and exchange were saved. The Privy Council held that an expense incurred in order to reduce business expenses is not deductible for even though it increased income, it did not earn income. The specific point in the case appears to be now covered by s. 11(1)(cb) of the Income Tax Act.

The year 1947 might be said to mark a turning point in the interpretation of the business deduction section of the Income War Tax Act. In that year, in addition to the *Hudson's Bay Co.* decision, the case of *Imperial Oil Ltd. v. M.N.R.* (1947), C.T.C. 353 was decided.

It was decided in that case that Imperial Oil Limited could deduct the amount of a payment made in settlement of a lawsuit arising out of a collision between an Imperial Oil tanker and another vessel. Despite the argument by the Minister of National Revenue that this was not an expense laid out for the purpose of earning income, the court allowed the deduction on the basis that it was an expense "necessarily incidental"

to Imperial Oil's business which included tanker operations.

The most recent Canadian case exemplifying the trend toward a broader test of deductibility is that of *M.N.R. v. L. D. Caulk Co. of Canada Limited* (1954), C.T.C. 29. This was the famous dental combine case where the taxpayer sought to deduct the legal expenses of defending itself in the combines prosecution in which it was eventually acquitted. Although this case was not decided until 1954, it arose in the taxation year 1947 when the Income War Tax Act was still in effect. In this case the Supreme Court of Canada held that the word "necessarily" in the phrase "wholly, exclusively and necessarily laid out . . . for the purpose of earning income" was not to be taken in a literal or absolute sense (see p. 30 of the report). The court broadened the test of deductibility to include cases of payments made in the "commercial sense" of necessity (see report p. 31).

Thus the test of deductibility as determined by the Canadian courts has come a long way from the *Dominion Natural Gas* case in 1940. Notwithstanding the divergence of opinion that still exists and will continue to exist, progress has been made toward bringing together the income tax and business concepts of what constitutes a deductible expense.

Taxation of Farm Income

ALAN W. BELL

THE TAXATION of farm income presents many problems to the professional accountant, some of which are particularly interesting. In a number of them alternatives are open to the taxpayer and the tax practitioner can offer valuable advice in the choice of these alternatives.

In a broad sense it may be said that farming is a business and hence net income from farming is determined by the same rules that are applicable to any business. The farmer, however, has the following choices open to him when computing his net income and calculating his tax:

Cash or accrual basis of accounting,
Straight line or diminishing balance
method of computing depreciation,

Adoption or non-adoption of a
"basic herd",

Averaging his income every five
years if this is to his advantage.

In addition, the farmer may carry on operations as a single proprietorship, a partnership or as a limited company. In the discussion which follows, the above points will be discussed individually, but it will soon become apparent to the reader that they are to some extent inter-related.

Choice of Cash or Accrual Method

The "cash basis" of accounting for farm income has always been accepted by the Taxation Division, but it was not until 1955 that this practice was given formal statutory approval by section 85F (1) to (3). The almost universal adoption of this method by grain farmers and by many cattle farmers would suggest that it must have many tax advantages. These may be summarized as follows:

(a) Tax is paid only when income is realized in cash, and accordingly the financial problems of the farmer are not aggravated unnecessarily. Many western grain growers with large stocks of unsold grain on hand would be in serious difficulty if they were forced to report their income on an accrual basis.

(b) The effect of graduated rates of tax on wildly fluctuating incomes is largely eliminated by the provisions of the Income Tax Act, which allow farmers to average their income every five years and to carry losses back for one year and forward for five years. These sections of the Act give the "cash basis" farmer most of the advantages of the accrual basis without its disadvantages.

(c) Net income in any given year can often be controlled to give the best tax results. Arrangements can usually be made prior to the end of a fiscal year to adjust income upwards or downwards by the sale or purchase of grain or cattle with the intention of re-purchasing or re-selling again early in the subsequent period. Although such "wash-sales" do not change the total income over a period of years, they are effective in shifting income from one year to another or from one five-year period to the next.

(d) The provisions of section 64(2) and (3) of the Act protect the farmer from the possibility that the value of grain or cattle on hand at the date of his death will be added to his income in that year. Section 64(2) gives him a number of alternatives, one of which allows him to add one-fifth of the value of such "rights or things" to the income of each of the five preceding years, including the year of death. Section 64(3) provides as follows:

Where before the time for making an election under subsection (2) has expired, a right or thing to which that subsection would otherwise apply has been transferred or distributed to beneficiaries or other persons beneficially interested in the estate or trust,

- (a) subsection (2) is not applicable to that right or thing, and
- (b) an amount received by one of the beneficiaries or other such persons upon the realization or disposition of the right or thing shall be included in computing his income for the taxation year in which he received it.

The terms of the farmer's will and the relevant provincial law will determine whether or not it is possible for the executors to transfer or distribute the rights and things to the beneficiaries. Where these rights and things are substantial in value, a

farmer should be urged to consult his solicitor and review with him the provisions of his will and thereby assure himself that the option provided by this section of the Act will be available to his executors on his death.

(e) Although the provisions of sections 64(2) and (3) of the Act give a large measure of protection in case of the death of a "cash basis" farmer, the use of the corporate form of organization not only tends to eliminate these problems but it also has additional advantages which will be discussed later.

If all of the points raised in the previous discussion of the "cash-basis" of reporting farm income are kept in mind, it would appear difficult to imagine circumstances which would favour the reporting of such income on any other basis. It should be noted, however, that no mention was made in that discussion of the tax problems that must be solved by a large "cash-basis" farmer who wishes to sell his complete farm unit. It is true that if he is a grain farmer, he can sell his land and retain the inventory of grain; the grain can then be sold over a period of years without adverse tax consequences. However, if he is a large cattle farmer, it will be very difficult to find a suitable buyer unless he is prepared to sell both land and cattle as a unit. Assume that there is a cattle inventory of \$100,000 involved. Can our farmer not sell the cattle under an agreement whereby the buyer pays for them at the rate of \$10,000 a year, such agreement being secured by a chattel mortgage on the cattle? The annual payments on such agreement will be reported as income under section 24(2) when they become due

and payable. Furthermore, if the vendor farmer so wishes, he can realize a substantial portion of the sale price of the cattle immediately by borrowing from a bank on the security of the agreement.

We must conclude that, except in very unusual circumstances, the "cash-basis" of accounting will produce the best results for income tax purposes.

Choice of Depreciation Method

The main advantage gained by the use of the straight line method of calculating depreciation is that the "recapture" provisions of the Income Tax Act do not apply in the case of disposals of depreciable assets, and this, of course, is only an advantage when the sale price or trade-in value of a depreciable asset is in excess of its depreciated value. The experience of the last five years has certainly been that this was true in the majority of cases. But what of the future? There are few indications that the inflationary trend of the last two hundred years has come to an end and, if we assume it will continue, it will favour the "straight-line-basis" farmer. It is true that when the assets are new this method results in lower annual charges to income than the diminishing-balance method, but for most farmers this disadvantage will be more than offset by the tax-free gains he makes on the disposal of depreciable assets.

It should be noted that under the regulations issued by virtue of the Income Tax Act, it is possible for a farmer to change from the straight-line to the diminishing-balance basis at any time. Little harm can be done and there may be some advantage for a farmer to make this switch after he reaches late middle age, provided he intends to will his farm assets to

his sons and not sell them during his lifetime. In this way he will obtain the advantage of the higher depreciation allowances and yet not be subject to the recapture provisions on any substantial portion of his assets. Although the fair value of his buildings and equipment at the date of death may be in excess of the depreciated values, there is no "disposition" under section 20, which is necessary to make the recapture provisions operative. The farmer must be careful in making this election to switch to the diminishing-balance method, however, for the following reasons:

(a) The regulations do not permit him to revert back to the straight-line method at a future date.

(b) Depending on the average age of the depreciable assets, the annual allowance may be less on the diminishing-balance basis than it would be under the straight-line basis.

Basic Herds of Livestock

On December 13, 1950, the Deputy Minister for Taxation issued Bulletin No. 3 describing the circumstances under which a basic herd may be established. In essence this provides that a taxpayer who is engaged in the business of the production for sale of livestock or livestock products and

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who maintains a permanent herd of cattle, horses, sheep or swine for that purpose may apply for approval of a basic herd, to be established as at January 1, 1947 or the commencement of operations, whichever is later. The basic herd is determined as the number of mature animals or their replacements which the taxpayer can establish that he acquired by gift, inheritance or by purchase, provided that the purchase was not used to reduce his taxable income. Two immature animals are equivalent to one mature animal, and a mature animal is one which has attained the actual age of two years in the case of cattle, three years in the case of horses and one year in the case of sheep or swine.

The number of animals in the basic herd may be increased by the addition of mature animals when they have been acquired by:

- (a) purchase in the current year, provided that no part of the cost is charged as an expense,
- (b) gift,
- (c) inheritance, provided that the animals were included in the basic herd of the deceased or their fair market value had been added to the income of the deceased,
- (d) natural increase, if the fair market value of the animal is added to the taxpayer's income in the year in which the animal attains maturity.

Where the total herd is reduced either by sale or any other cause to a point where the total number of animals (expressed in terms of mature animals) on hand is less than the number of animals determined as the basic herd, the difference between the number of animals remaining on hand

and the basic herd will be deemed to be a capital disposition. The basic herd will be reduced by this number of animals and the proceeds thereof, if any, shall be deemed to be a capital realization, not subject to income tax.

The average price of all animals (expressed in terms of mature animals) sold in the year in which the basic herd is reduced shall be used in determining the amount of capital realization. In arriving at this average price, the sale of a female with progeny, if sold together, shall be counted as the sale of one animal.

The principle of a basic herd presupposes a permanent herd and continuity of operation. In order that the approval of a basic herd may be maintained a taxpayer who has been granted such approval will be required to file income tax returns annually together with such information as may be requested regarding transactions affecting the basic herd.

It is to be noted that the bulletin treats a basic herd as inventory and allows the farmer to cost such inventory by the base stock method. It would be more correct, however, to call it a capital asset and to treat it as such. Although the bulletin gives the farmer the option of applying for the approval of a basic herd, there is support for the contention that the purchase of a new breeding animal is a capital expenditure and that in law there is no authority for even a cash-basis farmer to treat such a purchase as an operating charge. In the case of *Saunders v. M.N.R.* (54 D.T.C. 203) the Income Tax Appeal Board held that a pedigreed flock of chickens was a capital asset and that the profit on the sale of such a flock was a capital profit not subject to income tax. It is possible, therefore,

that the Department may use this authority to force taxpayers engaged in the production for sale of livestock to adopt either a basic herd or the accrual method of accounting or a combination of these methods.

In order to facilitate discussion of this subject, assume that in the fall of 1946 Mr. Smith purchased the following herd of cattle:

75 Cows @ \$53	\$ 3,975
80 Yearlings @ \$50	4,000
95 2 Year Olds @ \$80	7,600
250	\$15,575

For basic herd purposes, this is the equivalent of 210 mature animals and the average cost per mature head is 74.17. Let us also assume that Mr. Smith provides us with the information shown in Exhibit "A" and with the following detail as to the fair market value of his herd at December 31, 1954:

98 Cows @ \$125.00	\$12,250
92 Calves @ \$72.50	6,670
80 Yearlings @ \$105.00	8,400
72 2 Year Olds @ \$125.00	9,000
25 3 Year Olds @ \$150.00	3,750
4 Bulls @ \$350.00	1,400
371	\$41,470

An examination of these figures leads us to important conclusions:

(a) If, as in this case, a basic herd was established at December 31, 1946, when cattle prices were low, the farmer would realize a substantial non-taxable profit on a subsequent sell-out. If Mr. Smith sold all his cattle on January 1, 1955, he would realize \$41,470 (\$145.50 times 285 total units) of which \$30,555 (\$145.50 times 210 basic herd units) would be applicable to the basic herd and would give him a tax free profit of

\$14,980 (210 times the difference between \$145.50 and \$74.17). Note, however, that if Mr. Smith had commenced livestock operations on December 31, 1952, and had established a basic herd at that date, he would suffer a capital loss of \$2,840.04 (276 times the difference between \$155.79 and \$145.50) if he sold his complete herd on January 1, 1955. In other words, the basic herd basis should be adopted only at a time when livestock prices are low.

(b) Timing of sales is important where a complete sell-out is contemplated. Assume that in the fall of 1954 Mr. Smith decides that he would like to sell his herd and retire. Note the effect if he sells 75 cows prior to December 31, 1954, and then sells the balance of the herd on January 1, 1955 and realizes in all the fair market value as at December 31, 1954, as set out above. The total receipts of \$41,470 will be treated as follows:

- (1) The proceeds of the sale of 75 cows at \$125 each amounting to \$9,375 will be added to his 1954 income.
- (2) The receipts from the sale of the remaining 296 head (210 head in terms of mature equivalents), amounting to \$32,095, will be a capital receipt and will give a capital profit of \$16,520 (\$32,095 - \$15,575) on the sale of the basic herd. This is \$1,540 (\$16,520 - \$14,980) more than the tax free profit realized by selling the whole herd in January, 1955, as was suggested in (a) above. By selling off some of the low-priced animals (i.e. low on a per mature animal basis) prior to December 31, 1954, he increased the average value of

the basic-herd animals from \$145.50 to \$152.83 (\$32,095 divided by 210) and accordingly increased the capital profit by 210 times the difference.

(c) Even where there has been no increase in the general level of cattle prices, a farmer on a basic herd can increase the average value per head by building up the proportion of high priced animals in the herd and, as concluded in (b) above, this will be of particular advantage prior to a dispersal sale.

(d) Over the nine-year period shown in Exhibit "A" (see opposite), the cash-basis rancher would have reported \$41,470 less income than the rancher on an accrual basis, \$15,575 less than the rancher on a straight basic-herd basis and \$26,488 less than the rancher using a combination basic herd and inventory basis.

It would appear, therefore, that the average cattle farmer should be encouraged to establish a basic herd only when cattle prices are substantially below the expected long-term average. The decision in each case depends on the facts, however, and where the farmer plans to specialize in raising breeding stock, the prices prevailing at the time of establishing a basic herd are of less importance. This type of farmer would expect to increase the quality of his herd over a period of years and to that extent increase the value of his basic herd even though the general level of prices remained constant.

If a cattle farmer prefers to pay income tax on an accrual basis rather than a cash basis and prices are high when he commences operations, he should normally be advised to use a straight inventory basis and not a basic herd. He will have little chance

of realizing any capital profits and he will insure that any losses incurred will be operating losses.

Electing to Average Income

Under section 43 of the Income Tax Act, a taxpayer whose chief source of income is from farming or fishing may elect to average his income over a five-year period. The section is carefully worded and makes it clear that losses cannot be claimed twice. For example, if 1950 is the first year in an averaging period and it shows a loss of \$5,000 of which \$3,000 was used to reduce a 1949 profit, the loss to be included in the averaging period is only \$2,000. Aside from this and a number of other technical points covered by the section, the principle is very simple and agrees with the common sense meaning of a five-year average. The only real problem that faces the farmer is deciding whether he should elect to average. In making this decision he must consider the following:

(a) Averaging is allowed only once every five years. If the tax to be saved by averaging is small, there may be little to lose by waiting until the end of another taxation year when it may result in a larger saving.

(b) The first year of the proposed averaging period is the key year. Where the income in that year is close to the farmer's estimate of what should be an average year for his farm, then it is unlikely that much will be gained by having it included in an averaging period.

(c) An attempt should always be made to estimate the income for the ensuing year and to calculate the tax position to the end of that year before deciding to average the years ending with the current year.

Exhibit "A"
COMPARISON OF BASIC HERD, INVENTORY AND CASH BASIS METHODS OF
ACCOUNTING FOR PROFITS FROM THE SALE OF CATTLE

Yr. Ended Dec. 31	(1) Number Mature Head	(2) Fair Market Value of Herd	(3) Fair Market Value per Mature Head	(4) Basic Herd Value	(5) Combination Basic Herd & Inventory
1946	210	\$15,575.00	\$ 74.17	\$15,575.00	\$15,575.00
1947	247	20,910.00	84.66	15,575.00	18,707.00
1948	259	23,525.00	90.83	15,575.00	20,025.00
1949	257	26,890.00	104.63	15,575.00	20,493.00
1950	280	36,225.00	129.38	15,575.00	24,632.00
1951	292	48,450.00	165.92	15,575.00	29,180.00
1952	276	43,000.00	155.79	15,575.00	25,857.00
1953	292	39,918.00	136.70	15,575.00	26,784.00
1954	285	41,470.00	145.50	15,575.00	26,488.00

Notes:

- Column (1) — This is the number of animals on hand, expressed in terms of mature equivalents on the basis set out in the Department Bulletin No. 3.
- Column (3) — Obtained by dividing column (2) by column (1).
- Column (4) — This amount does not change during the period because the number of mature head equivalents has never dropped below 210, this being the number on hand when the basic herd was established.
- Column (5) — Many ranchers calculate their income for tax purposes using a combination of the basic herd and the straight inventory method. For this purpose they add to the basic herd value, the average market value of the number of mature head in excess of the basic herd. In the example given the figure in column (5) for December 31, 1947 is arrived at as follows:

Basic herd — 210 units	\$15,575
Excess of 37 units @ \$84.66	3,132
	<hr/>
	\$18,707

(d) Where substantial savings can be obtained by averaging a given five years income, it is probably foolish to give up the "bird in the hand" for the possible larger savings that might be made by not averaging until the following year.

Advantages of Incorporation

The corporate form of organization has many advantages, most of which apply to the farmer as well as to the business man. For one discussion of these advantages, the reader is referred to pages 759-761 of McDon-

ald's Canadian Income Tax, published by Butterworth & Co. (Canada) Limited. This form of organization has other advantages to the large scale farmer:

(a) Problems involved in dealing with inventories of grain and/or livestock are greatly simplified for the executor of a deceased farmer who has been reporting his income on a cash basis. An unincorporated farmer, reporting on a cash basis, who has accumulated a large inventory of grain, can incorporate himself and transfer this inventory to the company

without unfavourable tax consequences, by having the payments from the company to himself spread over a suitable period of years. Care is needed in drafting such sale agreements, however, with special attention being given to section 24 of the Income Tax Act.

(b) Business and professional men who have purchased farms as investments usually find it impossible to avail themselves of the averaging provisions of section 43 because their chief source of income is not from farming. Substantial tax savings can often be realized in these cases by having a self-owned limited company own and operate the farm. The company will be able to average its income and there is the additional advantage that the first \$20,000 of farm income will be taxed at a rate much lower than it might be if the farm was not incorporated.

Bushel Basis Land Agreements

There is a substantial amount of land sold every year under what have come to be known as bushel basis agreements. For example, A sells to B 1,000 acres of land under an agreement for sale, the sale price being \$5,000 cash and 25,000 bushels of No. 2 wheat, or its equivalent. The usual agreement sets out that the purchaser must deliver one third of the crop grown on the land each year until the full purchase price is paid, and there is usually a clause in the contract calling for full settlement either in grain or cash within a certain number of years. Suppose that in this case the final settlement date is six years from the date of the contract.

Let us assume that at the end of the first year, B delivers 4,000 bushels of No. 2 wheat to the elevator for A's

account at a time when the initial payment by the Canadian Wheat Board is \$1.10 a bushel. How should B treat this transaction for income tax purposes? The method accepted by the Income Tax Department is to show the value of the grain or \$4,400 as income and to show as expense an item of interest. For this purpose the Department assumes that the contract will be paid out equally over the six years, and using annuity tables and an assumed interest rate of 5% calculates the total interest content in the contract. In this case we find that the present value of \$1.00 per annum due at the end of every year for six years is \$5.076, and that the interest content included in such payments is \$0.924 or an average of \$0.154 for every dollar paid. Using this method of calculation B would claim that 15.4% of the value of all grain delivered on the contract would be interest expense.

The taxation problems presented by these contracts are certainly involved, and it is questionable whether the solution described above has much merit other than its simplicity. One alternative would be to fix the value of the land at the date of the agreement on the basis of the fair market value of the consideration given and to treat any variations in the value of the grain as capital profits or losses. Suppose that at the date of the agreement the fair market value of No. 2 wheat, including participation certificates is \$1.20 a bushel. The value of land would be determined as follows:

Cash payment	5,000
25,000 bushels of wheat at \$1.20	30,000
a bushel	35,000

<i>Less estimated interest content —</i>	
15.4% of \$30,000	4,620
	\$30,380

If B delivers 4,000 bushels of No. 2 wheat to A at the end of the first year when the fair market value is only \$1.10 a bushel, he would report income of \$4,400 and interest expense of 5% of \$30,380 or \$1,519. He would also realize a non-taxable book profit of \$400 since he has reduced his liabilities by \$4,800 but has given out only \$4,400 in value. As far as B's income is concerned, this method differs from the one previously suggested only in the way the interest is spread over the term of the contract. The principal difficulty under either method is the determination of the fair market value of grain delivered under the agreement. Suppose the grain is delivered at a time when neither A nor B has any open quota with the Wheat Board. Is the Wheat Board price the fair market value if the Board will not take delivery of grain at the quoted price? In such a case could B not rightfully claim that the going price offered by cattle feeders is the real market price and value the grain delivered under the agreement at that price? Undoubtedly the Department would not agree with this method of calculation and a decision of the courts will be required to clarify this point.

Crop-Share Rental Agreements

Many western farmers rent their land to tenants on a crop-share basis which usually provides that the tenant deliver one-third of the crop to the elevator for the account of the lessor. The Department has treated the lessor's income as investment income and insisted that depreciation be claimed on the diminishing balance basis. However, an amendment to the Income Tax Act which is effective for 1954 and future periods now classifies such income as income

from farming, but only for the purposes of the averaging provisions of the Act. Prior to this amendment cases occurred in which the taxpayer claimed he was really not a lessor at all, but was, in fact, a partner of the supposed "tenant". Where both parties are members of the same family the actual activities of the parties may be more important in a court of law than the particular wording of their agreement. In this connection the key question is whether the "lessee" has exclusive possession of the land. If he has not, then there is no true tenancy.

A very interesting tax problem arises under some of these crop-share leases in connection with the breaking of new land. There is no question that the expenditures made by a farmer in breaking virgin land is a capital expenditure. However, suppose A leases his virgin land to B for three years stipulating that B will retain all of the first year's crop and deliver to A one-third of the crop harvested during the second and third years. Has A any taxable income in the first year of the lease? Sections 137(2) and 137(3) of the Income Tax Act provide as follows:

137.(2) Where the result of one or more sales, exchanges, declarations of trust, or other transactions of any kind whatsoever is that a person confers a benefit on a taxpayer, that person shall be deemed to have made a payment to the taxpayer equal to the amount of the benefit conferred notwithstanding the form or legal effect of the transactions or that one or more other persons were also parties thereto; and, whether or not there was an intention to avoid or evade taxes under this act, the payment shall, depending upon the circumstances, be

- (a) included in computing the taxpayer's income for the purpose of Part I,
- (b) deemed to be a payment to a non-

- resident person to which Part III applies, or
(c) deemed to be a disposition by way of gift to which Part IV applies.

137.(3) Where it is established that a sale, exchange or other transaction was entered into by persons dealing at arm's length, bona fide and not pursuant to, or as part of, any other transaction and not to effect payment, in whole or in part, of an existing or future obligation, no party thereto shall be regarded, for the purpose of this section, as having conferred a benefit on a party with whom he was so dealing.

It is likely that the Department would try to tax A in the first year of the lease on the basis that B has conferred a benefit on him by breaking his land even where A and B are dealing at arm's length. It is ques-

tionable, however, whether the courts will support this view since the tax savings to A are merely incidental to the main business purpose of the contract between the two parties.

Conclusion

The reader should be cautioned that generalizations are always dangerous in dealing with income tax questions and the writer is quite aware that some of the statements made in this article may well need qualification when applied to a specific set of facts. This should not detract from the general purpose of the article, which has been to encourage thought and discussion on some of the more challenging aspects of farm income taxation.

DINNER FOR TWO

A strange case came before the Westminster (London) County Court on April 12, 1956, illustrating that contracts with minors should be made with caution.

A young man "about 26" and a girl of 20 went out to dinner in the West End. After enjoying such delicacies as steak and champagne, the young man excused himself at 1.30 a.m. "to see his car". He failed to return, and the girl was left with the bill for £6 11s. The proprietors of the restaurant sued her on this.

The Registrar in giving judgment said:

"Nobody would suggest that a champagne dinner at that hour of night is necessary nourishment. It is fun. As the defendant is an infant, and the meal was not a necessity, the case must fall to the ground."

It is understood that discussion is still continuing in legal circles as to who was taken out and who was taken in.

—From "London Letter" by R. A. J. Couldery, A.C.A.
in *The Accountants Journal (N.Z.)*, June 1956.

A Review of Integrated Data Processing Equipment

HARRY S. BROWN

THIS REVIEW OF I.D.P. (integrated data processing) equipment follows quite logically a description of I.D.P. that appeared in the June 1956 issue of *The Canadian Chartered Accountant*. While not exhaustive in scope, it deals mainly with those types of equipment most widely known and generally used in Canada, machines that will accept and/or provide punched paper tapes as a medium for operation.

Common language machines have been described by some authorities as those which operated solely on a 5 channel punched paper tape medium. This limitation is true only when the proposed I.D.P. system involves the use of telegraphic equipment, which employs 5 channel tape.

Telegraphic equipment is automatically activated by a punched paper tape containing a maximum of five holes across the width of the tape. Each combination of holes represents an alphabetic character, numeral or symbol to the machine. The tape is read lengthwise. The 5 channel code provides 32 combinations of holes or "no holes". The use of one of these combinations preceding a series of holes tells the machine to consider subsequent codes as alphabetic or

numeric thus expanding the number of codes available.

Certain units of equipment, other than telegraphic, have joined the 5 channel family in recent years and are compatible with telegraphic equipment.

Other equipment operates solely on 6, 7 or 8 channel codes and some will even accept both 5 and 8 channel media. Advantages do exist in wider channel tapes. Only one alphabetic case is available to 5 channel machines; 6, 7 or 8 unit codes will allow for upper and lower case. In addition, one position of the code provides for parity checking. Greater flexibility is afforded with the 8 unit code through the greater variety of combinations that exist.

Typewriters

At the time of writing, three makes of tape reading and/or tape punching typewriters are available to the Canadian user. These are Commercial Controls' *Flexowriter*, I.B.M.'s *Typewriter Tape Punch*, and Underwood's *Dataflo*. The latter unit, while in use, is in prototype stage at this time. Production models are expected to be available early in 1957.

The *Flexowriter* is a heavy-duty

electric typewriter equipped with tape reading and tape punching mechanisms. Various models of the machine are available that will punch and read 5, 6 or 8 unit punched paper tape. Originally it was introduced as an automatic letter writing machine. Its value as an automatic forms writing unit has been seized upon by many administrators involved in mechanizing office routines.

The *Programatic Flexowriter* differs from the *non-Programatic* mainly in the controls built into the machine. The *Programatic* automatically selects information through the use of pre-punched codes in the tape being read, and types and/or punches the selected data only into the by-product tape. On a *non-Programatic*, such action is controlled by the operator. On the *Programatic* unit, then, provision should be made for the inclusion of control codes when first setting up master tapes. A common example will illustrate the development of codes required for the *Programatic*. Say a document is to be typed which contains a large amount of repetitive data and some variable information. Selected portions of the finished product are required in paper tape for conversion to punched cards. In the first instance, the supervisor should establish the functional codes to be used in the repetitive tape, i.e. punch on, punch off, etc. A "loop tape" containing these codes is used in the tape reader to ensure the correct insertion of functional codes when the master tape is set up. Codes are then automatically available when the final document is being prepared. Correct entry of functional codes in by-product tape is thus removed from operator responsibility.

The *Programatic* is equipped to reproduce tape without typing, to type without reproducing tape, to skip portions of the tape without either reproducing or typing.

A popular development for the *Programatic* is the edge card punch and reader unit. This facility enables the machine to punch and read holes in the edge of cards as well as in paper tapes. These cards are available in single, triple or continuous form. Individual size is 3" x 7". This unit type record was developed to facilitate handling and filing. Other card sizes may be used subject to clearance with manufacturer relative to size and paper stock specifications. Card stock must also have pre-punched feed holes to assure accurate registration of code holes. The reader provides easy insertion of the card to be read. The machine retains its ability to read and punch tapes.

When an application calls for two separate by-product tapes, a motorized tape punch may be cable connected to the main typewriter. Likewise a separate motorized tape reader enables tapes to be read intermittently, selecting the required data automatically from each tape, producing a composite document and by-product tape. Provision exists for verification of tape through the use of a separately engineered model.

Five-channel tape *Programatics* are available in the conventional 4 bank keyboard or communication style 3 bank keyboard, both with single case type only.

Eight-channel tape *Programatics* are 4 bank keyboard units producing either single or double case type as specified.

There is also a unit which will convert from 6 to 5 channel tape.

Underwood *Dataflo* equipment consists of electric typewriters, tape punches and tape readers connected together as specified by the system. One component of this system is the universal programmer. Its purpose is to control all other units automatically and to relieve the operator wherever possible.

The maximum number, as shown here in parentheses, of any of the units described below may be controlled by the universal programmer. Any number less than the maximum may also be controlled.

Controlwriter (1) — This is the typewriter used by the operator. It may also be actuated automatically, either from the universal programmer or the punched paper tape reader. This unit must be included in the system, although others may be omitted.

Slavewriters (3) — These are electric typewriters that can be operated automatically, following the action of the controlwriter or universal programmer. They can also be operated manually but cannot influence the action of any other units of the system.

Tape Punches (2) — These will provide by-product 5, 6, 7 or 8 channel punched paper tape.

Tape Readers (2) — These read 5, 6, 7 or 8 channel punched paper tape and operate any or all other units of the system automatically.

Adding Machine (1) — A *Sundstrand Duplex* (2 register) adding machine, both registers equipped for *dr.* and *cr.* balance, may be included in the system. It accepts data from the controlwriter for straight addition and automatic output to both page copy and tape punch. Here is an example of its use in a

"non-add" capacity. Prior to the amount field on a document, the operator "keys" in the amount to be typed on the controlwriter. These figures do not appear on the controlwriter copy. With no appreciable time lag, they are fed through the adding machine and the amount is automatically typed in its *correct* position by the controlwriter. Automatic zeros may be included in the paper tape for conversion to punched card medium.

The operation of equipment is alternatively under control of the operator and the universal programmer. Normally the operator switches all units on, positions continuous forms in all typewriters, feeds tape into the punches and readers. From the time the program is started, the universal programmer automatically switches any component on or off, feeds forms in all typewriters to the next writing point, types fixed information such as dates, specific repetitive words, punches fixed control codes in tapes, then stops for manual operation when appropriate.

The entire programming of the equipment is under control of the universal programmer which is controlled by a "pluggable" control panel. If the equipment is to be used for a different application, one control panel may be removed and another inserted.

I.B.M.'s *Typewriter Tape Punch* (Type 884) is a combination of an I.B.M. electric typewriter and a cable connected tape punch. As information is typed, an 8 unit punched paper tape is automatically provided in the tape punch. Only data required for conversion to punched card

media are contained in the tape. Selection is controlled by a program tape at the rear of the typewriter. This tape selects up to 7 different combinations of data to be punched. Each of up to 7 channels is punched to agree with each horizontal typing space on the form. The machine determines which program it is following by the operator depressing a 0 to 7 typewriter key at the beginning of the line. It is normal practice to have these program numbers printed on a tear-off strip at the left of the form. Visual check determines whether the operator put the machine into its correct program. Subsequent action is automatic. Methods of correcting typing errors have been developed as a standard routine.

Communications Equipment

Communications equipment forms an important link in many I.D.P. systems where automatic tape transmitters, page printers and tape reperforators are seen in varied combinations. Five channel tape may have been prepared as a by-product of the original typing on one of the automatic typewriters previously described. This tape may be placed in a tape transmitter, the switch turned to "On" and transmission to a distant point effected automatically. In many instances page copy is required at the sending location. The transmitter is associated with a page printer and continuous forms containing all of the data being transmitted are automatically typed as transmission is carried out.

At the receiving end of the circuit, copy may be produced on a "page receiving only" machine, or on a composite unit similar to that used for transmission. Two-way communication would be available if needed.

Often a typing reperforator is tied in with receiving equipment. As page copy is being prepared, a duplicate of the tape used in transmission is produced at the receiving point. This tape may be similar to that produced on the typewriters, or it may be an interpreted tape which facilitates handling and identification.

In addition to producing page copy, the page printer may have a typewriter keyboard affixed that will allow direct manual transmission.

One popular assembly of teletype equipment in I.D.P. systems is the page printer with keyboard, automatic tape transmitter and typing reperforator. This grouping of equipment is used in an "off-line" or "closed circuit" fashion to initially set up the document to be transmitted. Tapes containing repetitive data are fed into the automatic transmitter. Continuous forms are typed automatically on the page printer. Repetitive data tapes contain instructions to the machine to stop, in order that the operator may insert variable information. This variable is typed in from the keyboard. Automatic typing then takes over. A complete by-product interpreted tape is available from the typing reperforator. Checking of the document for accuracy may then be carried out prior to transmission. The same equipment may be employed for transmission as for document and tape preparation.

Standard equipment is available with automatic transmission speeds of 60 or 75 words per minute. Newer streamlined models, still in short supply, transmit and write at 100 words per minute. Page machines are capable of printing a maximum $8\frac{1}{2}$ " width form with 74 characters across the width of the form.

On the typewriters previously reviewed, carriage returns also cause automatic vertical spacing. Teletype equipment has separate carriage return and vertical spacing keys. The latter is known as a "line feed" and must be remembered when integrating data from one of the typewriters described to teletype equipment. Such typewriters may have an extra "line feed" key which punches a code in the tape but does not otherwise activate the typewriter.

Vertical and horizontal tabulation may be specified for teletypewriters. A typing suppressor may also be added to a receiving machine. For example, if pricing was to be eliminated on a factory order on the receiving teletypewriter, the typing suppressor would eliminate typing on the right hand side of the form.

Many variations to standard equipment are available subject to the requirements of the specific system.

Conversion Equipment

Attention has been focused thus far on forms writing equipment. One necessary link in a vast majority of I.D.P. systems is the input to punched card accounting routines. This is done by using the output from communications equipment in its 5 channel punched tape form, or the punched tape from tape producing typewriters and converting the data to punched cards. IBM, Remington Rand and Underwood-Samas each have units of equipment capable of doing this conversion.

IBM's *Type 46 Tape-to-Card Punch* and *Type 47 Tape-to-Card Printing Punch* will read either 5 and/or 8 channel tapes, depending on the model used. A "pluggable" control panel directs the operation of

the machine. It may be wired to by-pass certain details in the tape or to reproduce all data. Checking features to ensure the card is "in step" with the tape may also be wired in the control panel. The functional difference between models 46 and 47 is that the latter can be used to print along the top of the card data being punched into the card. *Type 46* reads tape and punches at a rate of 20 columns per second. *Type 47* operates at 18 columns per second. Skipping and releasing of cards is at the rate of 80 columns per second. It will be realized that one of these units is capable of handling the output of several communication reperforators or tape punching typewriters. In appearance, the punching units of the machines resemble types 24 or 26 card punches. When not in use as tape-to-card machines, they may be used as normal card punches under manual operation.

Remington Rand's *Tape-to-Card Converter* accepts 5 channel tape. It will read selectively or duplicate all data in a tape, depending on the program established. Because all holes in a card are punched simultaneously, errors may be corrected in a tape so that the punching mechanism is also corrected prior to punching. Tapes are read at a constant speed of 420 characters per minute. When not in use as an automatic machine, it also will operate under manual control.

Underwood-Samas' *Tape-to-Card Converter* accepts a 5 channel tape and converts either all or selected data therein into punched card form. Repetitive information may be introduced manually to the machine at the beginning of a run and gang punched into all succeeding cards. It may

not be used as a card punch under manual control.

I.B.M.'s *Type 63 Card Controlled Tape Punch* reads 80 column punched cards and converts data into 5 channel punched tape at the rate of 10 columns per second. Remington Rand's *Card-to-Tape Converter* reads 90 column punched cards and converts to 5 channel punched tape at the rate of 15 columns per second. In both units columns in the cards may be skipped over in order to record the minimum amount of data needed in the punched tape media. In this way through a greatly reduced length of tape, economies are effected either in mailing costs or transmittal time if telegraphic communications are employed.

I.B.M.'s *Cardatype Accounting Machine* (Type 858) consists of a typewriter, control panel, auxiliary keyboard, arithmetic unit, card read unit (input) and card punch or tape unit (output), whose functions are described below. The typewriter may be used independently or in combination with any of the foregoing components. Data may be typed automatically from standard 80 column I.B.M. cards in the card read unit, or from the results of computations in the arithmetic unit. The typewriter may also control up to three slave typewriters cable connected to the basic unit.

The control panel directs the operation of all units in the system. On the auxiliary keyboard, consisting of 12 columns (0 to 9) constant or variable data may be introduced. By way of example, dates may be locked in, to cause automatic typing and card punching. Consecutive numbers may be inserted through this unit. Variable data too may be en-

tered to control computations through the arithmetic unit.

The arithmetic unit will accept information from other units in the system. It will add, multiply, subtract or divide and provide the answers automatically to the typewriter, card punch or tape unit. The card-read unit will read heading or detail cards either in their entirety or on a selective basis as determined by the control panel.

Such data is used automatically in any or all of the other units under direction of the control panel. The output unit may provide either 80 column punched cards, and 8 channel or 5 channel tape. It is not possible to have both a card punch and tape punch output.

Adding machines are also available with tape punch outputs. Clary, Friden, Victor and Monroe machines will punch any or all of the data keyed into the machine into by-product tapes which may be of the 5, 6, 7 or 8 channel type as required.

In the accounting machine group, both Burroughs *Sensimatic* and National Cash *Class 31* may be equipped to provide 5, 6, 7 or 8 channel tape output for conversion to punched cards or telegraphic transmission as required. The punch unit of the *Sensimatic* has a pluggable terminal board to control the selection of data required from the accounting machine. The punch operates at about 30 columns per second without sacrificing the efficiency of the machine.

The National *Class 31* has a modified model 461-2 tape recorder. Program capacity has been increased to correspond with the many functions of the accounting machine. Here,

too, the flexibility and efficiency of the machine has not been reduced.

Friden's *Computypewriter, Class C* is a combination of a *Flexowriter* and Friden calculator and normally specified for order writing and billing operations. Input and output are in the form of punched paper tape, or entry may be made from the typewriter keyboard as on the regular *Flexowriter* models. In addition, a row of program keys affixed to the front of the typewriter keyboard permits the typist to select control factors for extension. Any or all data typed may be recorded in tape form automatically for conversion to punched cards or telegraphic communication. The unit may be equipped with edge-punch card reader and punch.

The *Class 6700 Graphotype* permits the automatic preparation of Addressograph plates from punched tape. Upper case characters are available on model 6740 from 5 or 6

channel tape, and upper and lower case on model 6780 which accepts 6 channel tape only.

Office equipment and manufacturers are alert and eager to meet new needs of the "automatic office". New and improved equipment is being developed and produced as fast as new demands appear.

Progress in the I.D.P. field will continue and equipment now being introduced will eventually be superseded by still more versatile and efficient machines.

Meanwhile, important time and money-saving benefits may be had from I.D.P. Those pioneers in the business, industrial and governmental fields who apply the available I.D.P. tools best suited to their specific needs will be in a better position to reap a real harvest later on when their partly mechanized routines become part of the more fully automatic office of the future.

The next article in this series entitled "A Review of Electronic Data Processing Equipment" will appear in the January issue and will describe the characteristics of computer systems and their various components currently available in Canada.

Terminal Grain Elevator Accounting

J. C. WACHAL

THERE ARE OVER a quarter of a million grain producing farms on the Western Canadian Prairies, and the lands under cultivation aggregate some 75 million acres. About two-thirds of this acreage is seeded to grain each year. Although annual yields vary, production has exceeded one billion bushels in the several past harvests of wheat, oats, barley, rye and flaxseed. Approximately one-quarter of this production may be used right on the farms for feed, seed and food purposes. The remainder is moved to domestic and foreign markets.

While the production of grain represents the prime segment of the grain industry, other segments provide many essential services in the movement of grain to the domestic and export consumption channels. One of these segments is the terminal elevator.

The terminal elevator stores and handles grain and performs other important functions as well. It improves the condition of the grain by cleaning and drying, separates, sorts and blends it to grades specified by the customer. Spoilage from heating and insect infestation are prevented or checked. The elevator provides a pub-

lic warehouse where owners may store their grain without risk or loss. It also acts as a means of transfer from one method of transportation to another.

There are 47 terminal elevators in the Western Grain Division of Canada. Of these, 26 are located at the Lakehead, nine at the Pacific Coast, one at Churchill, and the remaining are at interior positions in Western Canada. The working storage capacity is about 125 million bushels and represents almost one-quarter of the total grain storage facilities in Canada.

Description of a Terminal Elevator

A modern grain terminal represents a large capital investment. Many thousands of tons of timber, steel, concrete and machinery must be assembled to construct the gigantic warehouse.

The elevator normally consists of two sections: the main structure, which is formed by the groups of storage bins, and the "workhouse", which houses the grain handling machinery. The storage bins of concrete construction are built in many rows, side by side, to form a large block of round bins up to 100 feet in height.

The areas between the round bins, called interstices, may be used as smaller storage bins. The capacities of the bins range from 3,000 bushels for the small interstices up to 35,000 bushels for the round bins. Such variety permits proper segregation of the many different qualities of grain and improves the overall efficiency in handling and storing.

The "workhouse" is referred to as the heart of a terminal elevator system. Part of the main structure, it is connected to each of the many storage bins by means of a grain conveying system. It is estimated that for each one million bushel capacity, one mile of rubber belting is required. The machinery of the workhouse includes car-dumpers, scales, cleaners, separators and dryers.

General Considerations

The accounting and operating procedures set out in this article are those currently in practice at a typical elevator located at the Lakehead. While such methods may vary at different locations and for different companies, they are, to a large extent, essentially the same everywhere.

The grain is moved by railway box cars from the Western prairies to the Lakehead terminals, milling companies or elsewhere. The grain cars are consigned for the account of the buyers by grain companies who own and operate a line of country elevators as well as most of the larger terminal elevators in the Lakehead area. The companies' operating licences are issued under the Canada Grain Act which is administered by The Board of Grain Commissioners.

In order to transact daily business and keep in close touch with the fast-changing grain trade, many elevator operators have established manage-

ment, sales and general accounting offices in Winnipeg, either in the Winnipeg Grain Exchange Building or nearby. They also maintain offices at the terminal site for controlling, recording and reporting day-to-day operations.

Accounting for Grain Unloads

Grain unloads at terminal elevators during the 1954-1955 crop year, as compiled by The Board of Grain Commissioners for Canada, were 325 million bushels at the Lakehead, 102 million bushels at the Pacific Coast, and 12.5 million bushels at Churchill.

The accounting and documentary control over the physical movement, handling and storing of grain from the time it arrives in box cars at the terminal elevators until it is loaded on water carriers has been highly developed to suit this type of commodity. Many of the present methods are laid down by statute.

Three separate agencies which keep independent records of grain cars unloaded at the terminal elevators are (1) the government weighing and inspection department, 2) the railway carriers of the grain and (3) the terminal owners.

All grain cars en route to the Lakehead from country elevator points are inspected for grade and dockage by government inspectors at the Winnipeg rail yards, and daily inspection sheets are delivered to the Lakehead office of the Board of Grain Commissioners.

At the Lakehead the railway yard office prepares from its bills of lading a complete record of all grain cars arriving daily, showing box-car identification number, country shipping point, grade and dockage. Grade and

switching tickets are tacked on the cars by the railway employees for later use at the elevator. The cars are then moved by what is known as "intra-terminal switching" from the railway yard to the elevator trackage. During the harvest season, as many as 2,500 grain cars arrive daily in the railway yards at the head of the lakes.

Before unloading the grain, elevator employees prepare a basic record from the tickets on the cars. Meanwhile, government employees examine the cars for leaks, break their seals, open their doors and record their numbers for subsequent identification and control. The cars are then placed in position at the "workhouse" and the grain is unloaded into the pit either by "car-dumper" equipment or by a power shovel. Although the "car-dumper" is costly, it is labour-saving and efficient. About eight cars can be unloaded in a single unit elevator in one hour by means of a "car-dumper", as against only two by the shovelling method.

After it is unloaded into the pit, the grain is elevated to the scale garner for scaling by a government weighman. A government employee is also at the track shed and another is in the basement watching the grain leave the pit on its way to the scale. Grain samples are taken continually throughout the elevation by special devices in order that the government grain inspection department can confirm the grade and dockage established at Winnipeg. The official weight of each grain car is determined by means of automatically recorded scale tickets. After scaling, the grain is released and passes downwards into a bin above the cleaning and separating equipment in the "workhouse". A system of light

signals indicates that all the grain of one car has been scaled and that the next car can be unloaded. The cleaned or separated grain is later conveyed to its own storage bin in the main structure.

Basic Records

The basic records and documents for the grain unloads are prepared by each of the three different Lakehead offices. The railway office completes the freight invoice sheets and forwards copies to the elevator. The government office prepares the inspection and grade certificates, lists official weights and grades of all grain cars unloaded and also delivers copies to the elevator. The terminal elevator office prepares the daily unload sheets, outturn reports, warehouse receipts and related registration sheets from the official grain unload records prepared by the government representatives.

The outturn report represents the elevator's official record of unload and shows the names of the consignee and consignor, box car number, type of grain and grade, gross and net weights, dockage and amounts of elevator tariff charges for cleaning, weighing and inspection. A warehouse receipt is the document of ownership showing the name for whose account the grain has been stored, the date of its issue and the weight and grade of the grain. The grain documents, inspection certificates and other related papers in support of the grain unloads for the day are then dispatched to the main offices of the terminal company at Winnipeg.

The work of checking and recording the daily transactions and transmitting grain documents is carried out at the Winnipeg offices of the term-

inal. Warehouse receipts and related registration sheets are, after cross checking, delivered to the offices of the Board of Grain Commissioners where the documents are registered. The freight invoice sheets are checked and vouchered for payment. The daily unload sheets are compared with the outturn reports, and daily totals for the freight, cleaning, weighing and inspection charges are recorded as receivable from the consignors of the grain. The registered warehouse receipts, together with copies of the outturn reports, are delivered to the consignors' offices and exchanged for the original railway bills of lading and a cheque for settlement of the freight and sundry elevator charges. The original railway bills of lading are then cancelled and filed for any reference that may be required in the future. Total bushels of each grade unloaded at the elevator as shown on the office copies of the registration sheets are entered in the grain stocks ledger.

Accounting for Grain Shipments

While the grain unloading operations at a terminal elevator are colourful in some ways, the shipment procedures are of greater interest to most observers. There is a certain element of sustained fascination in the slow and exacting movement of the lakeboats as they take up their position alongside the elevator docks to receive the grain. Later they slowly lower into the water to a designated maximum capacity line as their weight increases from the grain which is spouted into their holds from the elevator. As much as 50,000 bushels can be loaded in one vessel in one hour. Some of the larger lakeboats can carry up to 800,000 bushels.

Shipments of grain from the Lakehead terminal elevators to the Eastern

Canadian markets or seaboard positions are made generally by the exporters who own the grain. The exporters are represented by the Lake Shippers Clearance Association for purposes of facilitating the loading of the grain from the elevators to the water carriers. The Association clears grain documents, arranges for loading grain vessels and settles elevator charges on behalf of the exporters.

The first step in shipping is for the shipper or exporter to deposit warehouse receipts with the Lake Shippers Clearance Association, which then dispatches shipping orders immediately to the terminal elevator and the water carrier. The elevator superintendent then advises the weighing and inspection department of the Board of Grain Commissioners as to the grade and quantity of grain to be shipped. As was the case when the grain first arrived at the elevator, a government weighman performs a scaling operation and an inspector draws grain samples to verify that the grain's grade is as specified. The close supervision of grading and weighing by government employees is necessary because an official document "certificate final" is issued to the exporter certifying the grade and weight of the cargo. Grain covered by "certificate final" requires no further processing prior to domestic or foreign marketing.

The Winnipeg offices of the terminal receive the shipping advices and cancellation sheets from the elevator office and the warehouse receipts from the Lake Shippers Clearance Association. A daily manifest sheet showing all details of the shipments is prepared and, together with the warehouse receipts and related cancellation sheets, is then forwarded to the

inspection offices of the Board of Grain Commissioners for cancellation of the grain documents. A copy of the manifest sheet is sent to the Lake Shippers Clearance Association and serves as an invoice for elevation, storage and other tariff charges covering the grain shipped out of the elevator. Information concerning unload dates, weights, grades, etc., required for computing the charges, is obtained from the warehouse receipts.

Totals of the daily manifest sheets are accumulated and form the source for periodic entries to receivable and revenue control accounts. The daily quantity shipments are recorded in the elevator stocks ledger and the balances of stocks are established. Movement of all the different grades of grain quantities in and out of the elevator and any internal stock adjustments are recorded daily in the stocks ledger.

Terminal Earnings

The principal earnings of a terminal elevator derive from the services which it provides to the grain industry, including elevation, storage, cleaning and drying. Charges for each of these services are based on statutory tariffs which are subject to annual review by the Board of Grain Commissioners for Canada.

In order to realize a constant level of earnings, a proper balance between storage and handling is necessary. Near capacity storage and an interrupted movement of grain usually reflect abnormally low earnings for elevation, cleaning and drying which are not always offset by the higher storage earnings. A normal rate of turnover, which most industrial enterprises strive for, is also needed for a profitable operation of a terminal elevator.

An accounting of annual earnings for storage and elevation requires the usual accrual procedures. Earnings are recorded from the daily manifest invoices when the grain is shipped from the elevator, and accrued earnings on the stocks in store at the close of the fiscal year are also taken into account. Accrued storage is calculated from information shown on the office copies of the registration and cancellation sheets. It includes the unload date and weight of each outstanding warehouse receipt covering all the stocks in store. Accrued elevation is computed for the stocks on hand and an allowance is made for estimated shipment costs.

Elevation takes place during the different stages of handling the grain. When the grain is received in the elevator, it is elevated to the scale garners. After cleaning or drying it is elevated to the top of the building and poured into the storage bins. Finally, when it is removed from the bins, it is again elevated to the top of the structure, scaled and poured into the lakeboats.

The cleaning of grain in a terminal elevator is a most important operation. First, it must be cleaned to meet the grade requirements of the government inspection department. Weed seeds, broken kernels and other impurities are separated. Secondly, the cleanings should not weigh more than the dockage determined by the government at the time the grain is unloaded. If excessive grain is removed in the form of cleanings, shortages will result. Such a shortage is usually disclosed when an official accounting of the grain is made. Under statutory regulations, a weigh-over of all grains in the elevator must be carried out at intervals of from 9 to 22

months by personnel of the Board of Grain Commissioners for Canada. A signed report of the weigh-over, furnished to the terminal, shows grain quantities for which warehouse receipts are outstanding at the date of the weigh-over, the actual grain weights and the resultant shortages or overages for each different grade. To reconcile the differences, the elevator owners must purchase the outstanding warehouse receipts equivalent to the deficiency and surrender them to the Board for cancellation. They must also register documents for the overages.

The purchases of shortages and sales of overages are recorded in the grain merchandising accounts which also include the recording for purchases and sales of grain and grain screenings in the company's own name, and sales of dockage cleanings. Merchandising of grain by the terminal elevators is conducted primarily as a service. Certain low grades of grain for which markets are not immediately available are purchased, cleaned and blended with other grades to produce a marketable grain. Earnings from grain drying depend on crop conditions. In some seasons crops may contain a greater quantity of damp grain because of weather conditions during periods of harvesting and country storing. The drying process reduces the weight and improves the grade, and warehouse receipts must be exchanged to reflect the physical change of the grain. This operation is, therefore, supervised by the weighing and inspection department of the Board of Grain Commissioners.

Terminal Operating Costs

Like most industries, a terminal elevator classifies its expenses as ad-

ministrative and general, operating, and fixed.

Operating expenses comprise a variety of items. There are the wages of the superintendent and foremen, elevator crew, repair and maintenance men, and the clerical staff. The condition of all equipment and machinery is systematically scrutinized to ensure efficient performance. The renovation and repair of car-dumpers, conveyors, cleaners, dryers, dust collectors, scales and other equipment must be continual. Cracks and leaks in the walls and roof of the structure are constantly being fixed. Other items include power and heating costs, commodity insurance and other risks.

Fixed expenses represent a major part of the total costs. The large investment of capital necessary for storage and handling facilities is reflected in the high level of costs including property taxes, insurance, and depreciation charges.

Operating Risks

In addition to the many problems that arise in the elements of earnings and costs, the terminal owners are confronted with certain operational hazards. Grain spoilage, deterioration of grain condition and accidental destruction of the buildings are the main perils.

Grain may deteriorate or spoil in a number of ways. Heat, bacteria and insects may cause the kernels to discolour, reduce the weight and milling qualities of the grain and develop musty odors. The grain's moisture content usually governs its storing qualities. Heating can occur when the moisture content is above 14% and the elevator owner must measure his risk before accepting such grain. Insects are more prevalent when the temperature of the grain is high. As

soon as heating or infestation of grain is detected in storage, processes for cooling, turning, and fumigating are required.

Disastrous accidents can occur from dust explosions and fire. Fine particles of grain dust when mixed with air form highly explosive material, and a dust explosion can cause a concrete elevator to shatter from top to bottom. Preventive measures must be practised at all times. In compliance with statutory regulations, every part of the elevator must be kept clean of dust, adequate dust collection systems must be provided, and precautions against fire must be taken. Such measures, while costly, are recognized by most terminal owners as a necessary expense of doing business. In addition, grants are paid to research departments of educational institutions to study and improve the scientific methods of combating the risk.

In almost every phase of the grain industry major changes have taken place during recent years. Mechanization in farm equipment, scientific treatment of seed grains, cultivation of new grain varieties, increased use of chemicals for weed control and soil fertilization, and expansion of country grain storage and handling facilities are some of the recent developments. Other accomplishments, largely attributable to the terminal elevators, include the maintenance of the "export standards" of the grain as established by the government and the speedy grain movement to markets. In the near future the St. Lawrence Seaway will contribute to further expansion of the terminal facilities and acceleration of grain movement. At that time the Lakehead area will likely assume even greater importance as one of the major grain ports of the world.

TAXING THE MIND AS WELL AS THE INCOME

Taxpayers everywhere will sympathize with those who must fill out the very complicated eight-page income tax form in Japan. Here is a sample paragraph: —

"Take the appraised value of your house, multiply it by the floor space you occupy, divide it by the total floor space, multiply the result by the number of days during 1955 in which you were a resident taxpayer, divide the answer by 365, multiply that by 108 and divide the answer by 100."

— *Taxes*, April 1956

More Tax Aspects of Buying and Selling a Business

CAMPBELL W. LEACH

IT HAS BECOME an accepted phenomenon of business life that every transaction is affected by taxes and the sale of a business is no exception. By comparison with the tax aspect, the other difficulties arising when shareholders feel obliged to sell — differences of opinion among shareholders, problems of bringing together the buyer and seller to arrive at satisfactory terms and price, ensuring continuity of management — all recede into the background.

This preoccupation of the business community with the incidence of taxation is something that cannot be ignored. It has become part of our life and this is perhaps even more emphatically true in the United States and in the United Kingdom. In the latter country, the mental absorption of the businessman as he pursues the tax-free pound, shilling or even penny has become legendary.

What then are the principal items under our own income tax which come to mind when a business is sold?

Shares or Assets?

A business is a capital asset. One might then assume that any gain on its sale would be capital regardless of the form in which the sale takes

place, and yet a number of important distinctions must be made between selling the shares of a business and selling its assets. Most of these arise from our system of double taxation. The commercial profits of an enterprise are taxed not only when they are realized, but also when they reach the individual who is to enjoy them. Hence the buyer and seller are usually diametrically opposed whether the transaction should be in assets or shares. In the course of their negotiations they must agree on a method and price which will take into account the effects of taxation in either case. Broadly speaking, the buyer of assets should pay a premium because he gets a better "tax deal", and the buyer of shares should buy at a discount because he assumes certain taxation liabilities.

The points at issue include the recapture of depreciation imposed as a *quid pro quo* for the allowance of a terminal loss on the sale of capital assets, the depreciation base (or capital cost) for the new owner, special treatment of gains realized on a bulk sale of inventories and accounts receivable, the assimilation of the undistributed income of a company when it has outlived its useful

ness, and the treatment of deficits and carry forward of losses.

Tax on Designated Surplus

Much of the dead weight of double taxation has been eased by the introduction of a special tax on the capitalization of undistributed income (section 105) and by the dividend tax credit, but one objectionable and indeed retrograde feature remains, namely the tax on designated surplus.

What is the nature of this tax? There was a time when the owners of a limited company could obtain the fair value of their shares (and realize a capital gain in the process as the shareholders of a public company can still do) by selling to a limited company which in turn could bring over dividends or even wind up its newly acquired subsidiary without suffering tax. The accumulated earnings of the latter became merged with its own undistributed income, and, in the case of a public company at least, the taxation effect became so diffused as to be unnoticeable.

Over the years some mild efforts were made on behalf of the Crown to curtail the type of transaction where the vendors of companies received, in effect, the undistributed income in the form of a capital gain. However, following World War II, the activity in "fast deals" in corporate surplus became so great that the designated surplus provisions were enacted to bring the situation under control. The method used was to tax dividends between Canadian companies if they were paid from preacquisition surplus to a controlling shareholder.

Subsequently it became necessary to close a loophole so that undistributed income could not be realized cheaply by selling to non-resident

companies, to dealers in securities, or to charitable institutions. The rate of tax on undistributed income has therefore become 47% for ordinary corporate purchasers, 15% for non-resident corporate purchasers or exempt purchasers and 20% for dealers in securities.

Apart from these three cases, which are admittedly nothing more than devices, the normal purchaser is a Canadian corporation, and the tax then becomes the kind which nobody pays. The corporate purchaser (assuming that its eyes are open) finds the possibilities so unpalatable that it keeps its newly acquired subsidiary alive, and if necessary puts the subsidiary's resources to profitable use without bringing them over to itself.

Fairness to All Sides

During World War II the principle of "pay as you go" received much attention, and over the past 15 years our tax legislation has been designed to facilitate (or at least to remove impediments to) the flow of corporate income into the hands of shareholders while at the same time providing the Crown its legitimate requirements in the form of taxation. If the tax on designated surplus is so high as to prevent this process then it is contrary to that aim, but can it be said that it represents more than the Crown's legitimate share? The fact that it could bring about triple taxation should in itself be sufficient to give an affirmative answer, but on the other hand it may also be true that without some tax the Crown would suffer. The question is how to reach a compromise which is fair to both sides.

Going back to first principles, it must be recalled that the purpose of the tax on designated surplus is to

prevent the avoidance or the indefinite deferment of the tax which would otherwise be payable, say, on the winding up of a company, but the present rate is unduly high in comparison with the cost of an orderly distribution of a company's accumulated earnings. The average or effective personal rate after allowing for the 20% tax credit on dividends does not reach 47% until income reaches almost \$400,000, and the use of section 105 and other legitimate devices such as spreading out the distribution over a period of time brings down the cost considerably. On the other hand, we have tax rates of 15% on designated surplus going to non-resident corporations and exempt corp-

orations and organizations, and 20% on that going to dealers in securities. This in itself suggests that the legislators considered that these rates would satisfy their legitimate demands. In the result, it means that non-residents still have a considerable advantage over residents as potential buyers of Canadian companies, which surely is undesirable.

What then is a reasonable tax in the circumstances? The following table illustrates the impact of taxation on the shareholders of a company having an undistributed income of \$1,000,000 under a variety of circumstances and calculated on the assumption that other income is equal to exemptions.

No. share- holders	1	2	3	4
1	33.4	29.8	22.4	20.3
2	29.8	25.7	20.3	18.2
4	25.7	21.5	18.2	16.2
6	23.2	19.1	17.0	15.0
8	21.5	17.5	16.2	14.0
10	20.2	15.9	15.5	13.2
12	19.1	14.9	15.0	12.7
14	18.2	13.9	14.5	12.3
16	17.5	12.9	14.0	12.1
18	16.7	12.1	13.5	12.0
20	15.9	11.4	13.2	11.8
22	15.4	10.8	12.9	11.7
24	14.9	10.3	12.7	11.7
26	14.4	10.0	12.5	11.6

Column 1 shows the percentage of tax payable if all the undistributed income is post-1949 and is paid out to the extent of one-half in one year and the balance taxed at 15% under section 105.

Column 2 shows the percentage payable under the same circumstances but with the ordinary dividend spread over two years.

Column 3 shows the percentage of tax payable if one-half the surplus is pre 1950 and can be capitalized at 15%; of the remainder \$250,000 is assumed to be paid as an ordinary dividend and the remaining \$250,000 taxed at 15% under section 105.

Column 4 shows the percentage payable under the same circumstances as in column 3 but with the ordinary dividend spread over two years.

The range of possibilities is enormous, but a surplus of this amount is substantial and must be representative. The indicated conclusion is that a tax of 15% to 20% on designated surplus would be a reasonable one to replace the present situation. It would not be a precise tax; companies with a small undistributed income might pay slightly too much and those with a larger undistributed income might pay too little. If the figures shown in the table are plotted on a graph, the curve is concentrated in the area of 15% to 20%. This can also be seen from the table; in only a few cases is the rate higher than 20%.

The implication of triple taxation must be considered. The receipt of designated surplus by way of income is by definition a dividend since it comes out of undistributed income of the payor company. Again by definition it must be included in the undistributed income of the recipient company. If it reaches the shareholders of the latter company it will be taxed unless a capital loss has been incurred on the realization of the investment in the subsidiary company. There is always a possibility that such a loss will not be incurred. Thus the same profits have been taxed three times, once as operating profits of the subsidiary, once as designated surplus and once as income received by the shareholders of the parent company.

On the other hand, the correct accounting treatment is that when the designated surplus (i.e. preacquisition surplus) is received by the parent company, it should be applied against the cost of the shares in the subsidiary company and should not reach the surplus account of the parent at least until a net gain on the purchase is clearly indicated.

Regardless of the rate, if the tax on designated surplus is to remain at all, the Act should be amended in such a way that the residue of surplus minus the tax should in effect be categorized as a capital gain in the parent company. This could readily be done by arranging to exclude it from the definition of undistributed income, perhaps by a further deduction in section 82(1)(a).

The following conclusions emerge from the foregoing considerations:

1. The tax on designated surplus is too high in relation to the tax it was intended to replace.
2. The rate is high enough to block the flow of corporate surplus and to encourage an indefinite postponement of tax payment.
3. The indicated solution is to reduce the tax to 15% or 20%. The best rate within this bracket should perhaps be a matter for further study; the imposition of the 15% rate on non-residents may be a strong argument for using the same rate for resident corporations, but from the evidence of the table there is some justification for the 20% rate.
4. The designated surplus or any part thereof received by a controlling shareholder less the amount of tax paid thereon should be regarded as a capital receipt and excluded from the undistributed income of the recipient.

The designated surplus provisions were enacted at a time when an emergency measure was necessary to correct certain abuses. By and large, this legislation has served its purpose and should now be so modified as to not deter normal and legitimate business transactions.

Practitioners Forum

FEES

The first annual conference of the Ontario Institute of Chartered Accountants, held at Kingston, Ontario in June 1956, was an outstanding success. The following summary of the remarks made by John A. Wilson, F.C.A. of Toronto, exemplify the excellence of the material presented for discussion.

Fees and Their Significance

"Needless to say, fees are one of our most vital problems. Of course, the important duty of a profession to provide clients the best service and advice comes first. However, in public accounting careful consideration of fee levels may be more necessary than in the other professions. This is because proportionately we have many more people affected by our fee structure than do professions which are often conducted as one-man enterprises. We have students and employed chartered accountants who depend upon us for their income. The very life of our profession flows from being able to support a sufficient number of people at levels below the partners.

"The following effects all result from our fee structure:

1. The ability to pay students sufficient to make accounting attractive compared to other choices. Our profession would perish if adequate students were not available; therefore this is of the utmost importance. Admittedly, salary alone is not the main incentive in professional life, but remuneration must be reasonably in line with the times.
 2. Ability to retain a young graduate for sufficient time after qualification to enable him to determine with reasonable certainty whether he belongs in public accounting or in industry. Usually a new graduate needs time to solidify his thinking. It is only fair that the accounting firm should be in a position to pay him properly in competition with industry during these maturing years. Otherwise both he and the profession will suffer.
 3. For the profession to progress, the people in it must be able to compete financially with their brethren in industry, finance and government. Public accountants are required to rub shoulders with successful business people, and if they are to maintain proper professional status and self-respect they must receive a fair share of worldly goods.
 4. Adequate income is essential to avoid a slavish existence of unduly long working hours with insufficient time for relaxation and broadening of one's personality.
- "If we are agreed that proper remuneration to partners and staff is necessary, let us consider how to

tackle the problem of making our income match our obligations.

Four Factors

"Various papers and the rather rare court cases indicate that an accountant is entitled to base his fee on the following:

- (a) Responsibility involved.
- (b) Special knowledge or experience required.
- (c) Amount of time required.
- (d) Client's ability to pay.

(a) RESPONSIBILITY INVOLVED

"This might be greater where a prospectus or any special statement which will have wide publication is required; or in the purchase or sale of a business where any mistakes might cause the client serious loss. When reporting on a balance sheet involving large amounts, sometimes the responsibility is high in proportion to the amount of work involved. While many accountants carry insurance, this does not begin to make up for the loss of prestige if something goes wrong.

(b) SPECIAL KNOWLEDGE OR EXPERIENCE REQUIRED

"In reorganization, system or tax work and in special matters such as valuation of shares or negotiations, the accountant's particular experience is probably the influencing factor in his being engaged. Through the years he has acquired a specialized knowledge which enables him to carry out the assignment in a relatively short time. Yet the benefit to the client may be great and the accountant's contribution quite considerable.

(c) AMOUNT OF TIME REQUIRED

"This is one factor known to all accountants. Indeed there seems to be

too great a trend to make it the only factor in fee-setting. To offset this tendency it should be kept in mind that any fee based on time is merely a measurement of the overall size of the job. Because \$X.00 per hour is charged for a certain assistant it does not mean in fact that we are collecting that much for his specific time. The hours are at best only a rough guide but, of course, provide the cost on the job.

"As there are some assignments where the hour measurement is the only satisfactory one, the setting of billing rates based on hours is worthy of some attention.

"The number of productive hours worked by any employee is considerably lower than the total number of hours for which the employee is paid in any one year. In most firms, for audit staff up to the grade of supervisor, calculations are based on a high of 1800 hours per year and a low of 1200, with probably 1500 as a fair average. For partners, the number of productive hours varies greatly according to the type of firm, but generally is somewhat lower because of the time required for office administration, public service and business promotion. In calculating cost we should use the productive hours, not the maximum hours in a year, since we are only paid for the hours actually spent on a client's work.

"To the salary cost must be added an allowance for overhead and profit. Accountants generally are somewhat hesitant to disclose the amount of this allowance, but as a guess the general practice is to set target rates somewhere between two and three times the calculated salary cost. We have only to compare our rates with

carpenters, television repair men, and garage mechanics to realize that many accountants are much too modest in their assessment of the value of their services.

(d) CLIENT'S ABILITY TO PAY

"This may seem a strange item in an accountant's list of factors, but it is recognized as being proper for lawyers and surgeons. When we stop to think, we will realize we have been using it ourselves although perhaps unconsciously. Usually our tendency has been to let this factor influence a decrease in fees rather than an increase. When dealing with clients of limited means most accountants are ready to assist them by modifying their charges until they have developed to a point where they can pay the regular fee. In many cases we may be wrong in doing so, in that this may mean unfair competition to those accountants who serve that type of client almost exclusively. On the other hand, it is one of those services required of a profession.

Approach to Clients

"A very important additional point is the fair appraisal of the work rendered as seen from the point of view of the client.

"The time has passed when clients will pay for a great deal of detailed checking and what they consider non-constructive accounting. As a result, the detailed audit of 30 years ago is a very hard thing to sell, even though an audit is required by the various Companies Acts. We must have an attractive package for the client and must realign our thinking as to the type of work we propose to carry out. This involves the following considerations:

1. Possibility of helping with systems and procedures to eliminate unnecessary work or evolve short cuts.
2. Alertness to tax situations and chances for improving the client's tax position or guarding him against unnecessary loss.
3. Awareness of the client's business problems and, where feasible, making available to him any information which might help him.
4. Streamlining the audit in a manner most suitable to the particular client so as to fulfil the audit responsibility at a minimum cost.

"Many accountants who are successfully operating accounting practices today will tell you that audit work as such is almost becoming secondary to other important services to clients. These services can be much more remunerative than audit work and when coupled with an audit assignment can make a profitable job for all concerned. Best of all, the clients are happy and satisfied. Therefore, let us take a good look at what we are giving our clients and be sure that if we were in their shoes we would be satisfied with the value received for the fee.

"The approach to the client on fees is quite often different in every case. Some clients have preconceived ideas, which are entirely wrong, about the accounting profession. Thinking we pay our students next to nothing, they underestimate the cost of running a professional office. Careful and patient client education, including a willingness to present solid facts, is required. In fairness it should be said that there are just as many clients who are willing to see the accountant's side and have cooperated exceedingly well."

Mr. Wilson's remarks provide valuable advice for the Canadian practitioner. Accountants in the U.S. are also considering this subject. In an editorial in the February 1956 issue of *The Journal of Accountancy*, they announce the formation of a new committee of the American Institute and comment as follows:

"It will consult a representative group of successful practitioners on their methods of determining fees. The committee, naturally, will not be able to produce any material overnight or furnish a neat little formula. Too many factors must be considered in fee setting: the difficulty of the work done; the status of the personnel assigned to it; the know-

ledge, experience and judgment required to do it well; the degree of responsibility assumed; the magnitude of the amounts involved; the reduced cost or increased profits flowing from accounting recommendations. There is no rigid rule to measure these elements in every situation with precision.

"Nonetheless, the committee's report could be immensely helpful in a perplexing area of practice. But accountants will not be the only ones to profit. The business public also has a direct interest in sound fee-setting and a real, though indirect, interest in preserving the economic health of the accounting profession."

SELECTION OF PARTNERS

Gerald F. Mansco, a young accountant who asked how partners are really selected (*The Journal of Accountancy*, July '54, p. 23), is apparently still waiting for an answer.

While he waits, he might like to consider the counsel of Thomas P. Ryan, CPA, in an address at New York University.

"My advice to the budding accountant is to keep his theories and methods clearly in mind, but to be prepared to add much to his knowledge from contact with actual conditions as they confront him. If he is fortunate enough to come in touch with men of long practical experience, let him be prepared, while insisting on knowing the reason, to defer to their superior judgment, and with each new piece of work he will add practice to theory, and thus finally be able to reconcile the one with the other. He must not be impatient to be intrusted with the personal care of business, but rather prepared to begin at the foot of the ladder and climb step by step to the top. His education and training should assist him to make the ascent safely and quickly; but if he is not prepared to subject himself to this necessary training, which only experience can give, I fear he is not possessed of the patience necessary to learn how to obey, without which he will never know how to command. There is 'always room at the top,' but it is safer and surer to climb the stairs than to attempt entrance from the window or through the chimney."

Mr. Ryan gave this advice some time ago. In fact, it appeared in one of the first issues of THE JOURNAL back in June of 1906. But I think that Mr. Mansco, and others like him, could still profit from it.

JOHN H. SWANSON,
Chicago, Ill.

- *The Journal of Accountancy*, January, 1955

The Tax Review

THE INTERPRETATION OF TAXING STATUTES

In a judgment handed down a little more than a year ago Canada's highest Court in a unanimous decision (Kerwin CJC, Taschereau, Estey, Locke and Cartwright JJ.) dismissed an appeal by the Minister of National Revenue from the rejection of an income tax assessment. The case was that of *Sheldon's Engineering Ltd. v. The Minister of National Revenue* and it is of particular interest to chartered accountants since it was concerned with the meaning to be given the phrase "arm's length". In recent years that phrase has become a veritable bug-bear to accountants and all those concerned with counselling others on matters of taxation. The judgment of the Supreme Court is important for two reasons: in the first place the court refused to allow itself to be influenced by what could be inferred, but was not expressed, as the intention of the tax collector and as a corollary to that the court declared in unequivocal language its unanimous adherence to the classical statement of the role of the courts in interpreting fiscal legislation.

In the case in question the minority shareholders of a company bought out the majority shareholders and arranged for the sale of the company's assets to a new company formed by them for that purpose. At the precise moment that the sale of assets was effected a bank actually held a majority of the shares in the vendor

company by way of collateral security. Seizing on this fact the Supreme Court held that the two companies were not controlled by the same group at the moment of the sale, and that the two companies were therefore at arm's length and in consequence the new company did not suffer any diminution in the capital cost allowances which it could claim on the assets acquired from the old company. Their Lordships intimated that in adopting the phrase "arm's length" Parliament may have intended to make taxable what formerly was not, but, they added, "if so, the nature of the extension has not been made clear". And they repeated once more the famous words of Lord Cairns in *Partington v. Att'y-General*:

As I understand the principle of all fiscal legislation, it is this: If the person sought to be taxed comes within the letter of the law he must be taxed, however great the hardship may appear to the judicial mind to be. On the other hand, if the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however apparently within the spirit of the law the case might otherwise appear to be.

These words, for some reason, have proved unpalatable to many persons, those learned in the law amongst them, but in point of fact they merely state in a concise way the final result of three centuries of English constitutional history which defined the relationship of the executive to Parliament and the courts. It is this:

that the executive can exact no tax which Parliament has not authorized it to demand, and that the courts possess the exclusive right to interpret the meaning of Acts of Parliament. So deeply imbedded are these principles after three centuries that the House of Lords in Britain has said — and quite recently — that where an amendment to an Act of Parliament is based upon a mistaken view of the law the court will not treat the amendment as retroactively changing the law, and the amendment will have no effect.

It is well recognized law that the fundamental duty of the courts in construing an Act of Parliament is to ascertain and pronounce the intention of Parliament. But by "intention of Parliament" courts are never concerned with what may have been the views of any individual member of that body or of any group or party within it. A court of law in search of the intention of Parliament has one guide only, *viz.*, the actual language employed by Parliament. And since the task of interpreting Acts of Parliament is the function of the courts of law it follows that the task will be performed in the light of the law and by men learned in its practice and its principles.

For this reason it has always seemed to this writer that those members of the legal profession who criticize the courts for adhering to worn-out attitudes forget that by its very nature the common law, based as it is on precedent, cannot change its attitude overnight, and if there is to be a change, the initiative will come not from the courts but from the legislature and those who control it.

Having examined the most recent pronouncement of our own Supreme

Court on this matter, we may with profit look at some expressions of opinion by equally learned judges across the sea. Perhaps one should say that the United States courts do not appear to share the view of their Canadian and British Commonwealth counterparts on this subject. But for this there are excellent reasons. In the first place, over a wide area of its jurisdiction the United States Supreme Court cannot be overruled by the legislature whereas under the British system Parliament is supreme, subject in Canada to the allocation of legislative powers between Dominion and Provinces. As a consequence, the United States Supreme Court is, in some respects, not merely a judicial tribunal but a legislative body. Secondly, under the United States system of Government the legislature as distinct from the executive plays the dominant role in determining tax policy and formulating tax measures. Not so in Canada where the executive decides. In the United States, it follows, the intention of the legislature is more often than not the intention of the legislative assembly, whereas under the British system of government as it has developed in the last two centuries the intention of the legislature is almost always the intention of those who control the majority in the lower House of Parliament, i.e., the Ministry. As a direct consequence the role of the courts as guardians of liberty differs in the U.S. and in British countries. In the former the courts need not vie with the elected members of the legislature; in British countries party discipline pretty effectively neutralizes the influence of the ordinary elected member.

Accordingly, we can obtain little help from a study of the decisions of

United States courts on the principles of statute construction, but the decisions of the English courts will, as usual, prove invaluable.

Perhaps the leading British case on this subject, and a most illuminating one, is *Commissioners of Inland Revenue v. Duke of Westminster* (1936), 19 Tax Cas. 490. There the Duke of Westminster, who had a great many retainers, gave them all annuities equal to their annual wages, it being tacitly understood that his employees were not to claim their wages as well, though they were legally entitled to do so. The Inland Revenue contended that the annuities were wages in truth and so not deductible in computing the Duke's income (as they would be if they were in fact annuities). The House of Lords rejected the Crown's contention, and it was pointed out that in tax matters not form but substance governs. But, they added, the "substance" of a document, if a genuine document, is the legal obligation that it creates. As Lord Wright put it, "the true nature of the legal obligation and nothing else is 'the substance'". One should perhaps add that the true legal obligation created by the parties to it is not necessarily correctly described by the language that the parties use to describe it. A lease does not become a sale by calling it so.

A more recent case is that of *Wolfson v. Com's of Inland Revenue* (1949), 31 Tax Cas. 141. This was a case of an ingenious financial manipulation by a settlor of trust funds whereby the funds were employed in a series of purchases and sales of stocks resulting in a non-taxable gain of more than £100,000 to the settlor's wife.

The Inland Revenue sought to attack the transactions and to subject the settlor to tax, and in support of their claim they relied on a specific statutory provision in the tax statute, their main argument being that unless the statutory provision, which was admittedly ambiguous, was construed as the Crown requested, it left open a ready loophole for tax avoidance. Dealing with this argument, Lord Simonds said:

It is not the function of a court of law to give to words a strained and unnatural meaning because only thus will a taxing section apply to a transaction which, had the legislature thought of it, would have been covered by appropriate words.

And Lord Normand said:

That the enactment may be easily evaded is possible. That is a consideration which is irrelevant to its proper interpretation, and there is the practical answer that it may be easily amended; but that is for Parliament not the Courts.

In *Vestey's Executors v. Commissioners of Inland Revenue* (1949), 31 Tax Cas. 1, several million pounds sterling would escape taxation if certain actions of the Vestneys were outside the scope of the relevant tax legislation. Once again the House of Lords emphasized the long established rules of construction in rejecting the Crown's argument. Lord Simonds said:

The determination of this appeal involves a consideration of two Acts of Parliament which were designed to bring within the ambit of taxation income which would otherwise escape that burden. For that reason and because the ways of those who would avoid liability to tax are often devious and obscure, the sections are framed in language of the widest and most general scope, and in the case of one of the

Acts the operative subsections are reinforced by a provision which appears to exhort the assessing authority, and presumably the court, to let the balance, wherever possible, be weighted against the taxpayer. But, this notwithstanding, I think that it remains the taxpayer's privilege to claim exemption from tax unless his case is fairly brought within the words of the taxing section.

Lord Normand said:

Parliament in its attempt to keep pace with the ingenuity devoted to tax avoidance may fall short of its purpose. That is a misfortune for the taxpayers who do not try to avoid their share of the burden and it is a disappointment to the Inland Revenue, but the court will not stretch the terms of taxing Acts in order to improve on the efforts of Parliament and to stop gaps which are left open by the statute. Tax avoidance is an evil, but it would be the beginning of much greater evils if the courts were to overstretch the language of the statute in order to subject to taxation people of whom they disapproved.

His Lordship was here merely restating what had been said half a century earlier in the same Court:

"Intention of the legislature" is a common but very slippery phrase, which, popularly understood, may signify anything from intention embodied in positive enactment to speculative opinion as to what the legislature probably would have meant, although there has been an omission to enact it. In a court of law or equity, what the legislature intended to be done or not to be done can only be legitimately ascertained from that which it has chosen to enact, either in express words or by reasonable and necessary implication. It is an application of this principle that a statute may not be extended so as to meet a *casus omissus* . . . We cannot aid the legislature's defective phrasing of the Act, we cannot add, and mend, and, by construction, make up deficiencies which are left there. (Per Lord Watson in *Salomon v. Salomon & Co.*, [1897] A.C. 38.

THE RUSSIAN TAXATION SYSTEM

One point of interest to the British sur-tax payer is that in Russia 13% of income is the maximum rate, and awards for special services and bonus payments not exceeding £900 are not treated as taxable income. It is when you attain the rouble equivalent of £45 a week that you reach the maximum rate. You are then on the threshold of the world of managerial bosses, university professors and *savants* and successful journalists and actors. Though thereafter your earnings may multiply threefold, fourfold or more, your maximum rate of tax remains fixed at 13%. It is, by the way, only on the equivalent of the £6 a week line that the Russian begins to pay any income tax at all. Taking the £600 a year married man with two children as the standard taxpayer, no country in the world asks less of him than Britain or more of him than Russia. But magically transform him into a £3,000 a year man and no country asks more of him than England (not far short of £1,000) or less than Russia (a few pounds less than £400). The £1,000 a year man is treated much the same in both countries.

—From *Taxes*, August, 1956

BY GERTRUDE MULCAHY B.A., C.A.

Accounting Research

*The C.I.C.A.
Research Department*

ACCEPTANCE OF RECENT RESEARCH BULLETINS

The Committee on Accounting and Auditing Research of the Canadian Institute of Chartered Accountants was first formed in 1939. Owing to the unsettled conditions existing during the years of World War II, its early activities were limited primarily to the development of a standard bank confirmation form and to recommendations on the refundable portion of excess profits tax.

In 1945, the committee began operating in its present form, and was authorized by the Executive Committee in March 1946 to prepare and publish reports on its own responsibility. Since that date, the committee has issued 12 bulletins setting forth its opinion with respect to matters of accounting and auditing practice. The objective of these releases has been summarized in the "Preface to Bulletins" as follows:

The committee's aim is to be as useful to the members of the Canadian Institute of Chartered Accountants as possible. It is believed that it will live up to this aim more successfully if, after due deliberation and consideration, it issues bulletins setting out what it considers to be the best accepted practice or its suggested treatment of new elements in accounting statements arising as a result of changes in social or economic conditions.

The committee, recognizing that "one of the greatest services which

a chartered accountant renders is the judgment which he brings to bear in examining a financial statement to see whether it does provide adequate information"¹, directed attention in its first bulletin to "Standards of Disclosure in Annual Financial Statements of Manufacturing and Mercantile Companies". This submission set out specific suggestions as to the extent of disclosure considered desirable with respect to items which appear in most financial statements. In the ten years that have elapsed since the issue of Bulletin No. 1, a good many of the recommendations have come to be generally accepted as effective techniques in the communication of financial information. This fact is brought out clearly in the statistical analyses of "Financial Reporting in Canada" and has been substantiated further in the current analyses of published annual reports for the year ended in 1955.

More specialized aspects of statement presentation have been covered in some of the subsequent pronouncements of the committee. For the most part, these refer to matters calling for development of greater uniformity and understanding and problems resulting from changes in our economic structure. The last four bulletins issued by the committee have been of this more specialized nature. Sufficient time has not

¹ Bulletin No. 1 — October 1946.

elapsed to arrive at an informed conclusion as to the general trend towards the acceptance or rejection of recent recommendations, but it may be of interest to our members to review the current practices followed by Canadian companies in respect to the suggestions in Bulletins No. 9, 10, 11 and 12.

Bulletin No. 9 — Reserves

The opening paragraph of Bulletin No. 9 explains why the committee felt that some guidance was necessary with respect to the use of the word "reserve" in financial reporting: "The use of the term 'reserve' in a number of widely different senses has led to misunderstanding of financial statements. The committee considers that the use of the term should be restricted so as to prevent such misunderstanding."

Common practices at the time of the release of Bulletin No. 9 included uses of the term "reserve" which were considered by the committee to be inappropriate according to the basic sense of the term. These included the designation of amounts provided in respect of actual liabilities, deferred income and diminutions in the values of assets. The statistical analyses of published annual reports of Canadian companies showed that during the years ended 1949 to 1952 inclusive, this inappropriate use of the word "reserve" occurred most frequently in the descriptions of the items "allowances for doubtful accounts" and "accumulated allowance for depreciation". With respect to the former item, this designation occurred in 87.8%, 85.8%, 83.7% and 67.4% of the 1949, 1950, 1951 and 1952 statements, respectively. Corresponding percentages for the latter

items were 95%, 89%, 87% and 69%, respectively.

The statistical analyses of "Financial Reporting in Canada" show that within a year after the publication of Bulletin No. 9 there was a sharp drop in the frequency of the inappropriate use of the word "reserve". In 1953 the percentage dropped to 29.3% with respect to doubtful accounts, and to 31.8% with reference to accumulated depreciation. Further declines have been noted in both 1954 and 1955, when the percentages were 18.3% and 10.9% respectively for doubtful accounts, and 18.6% and 11.2% respectively for accumulated depreciation. It is also interesting to note that wording suggested in Bulletin No. 9 as suitable descriptions of each of these items has become, since 1953, the most common designation.

Section (a) of table 24 in "Financial Reporting in Canada" showed that in 1953, 104 of the 275 statements analyzed used the term "reserve" contrary to the suggestions of Bulletin No. 9. In 1954 this proportion fell to 66 out of 275 and of the 287 statements analyzed to date for 1955, only 48 made use of the term "reserve" in describing one or more of the following items: allowances for doubtful accounts, accumulated allowances for depreciation, and estimated liabilities for income taxes. These definite trends within three years of the release of Bulletin No. 9 indicate without a doubt that accountants and management recognize the wisdom of the committee's suggestions.

Unfortunately the recommendation that "Since reserves are segregations of earned surplus it is desirable that they be shown in the financial statements as constituting part of the

shareholders' equity"² has not received a similar degree of recognition or acceptance. Tables 24(b) and 24(c) of "Financial Reporting in Canada" show that of the 128 and 116 balance sheets setting out reserves on the liability side in 1953 and 1954 respectively, only 25% and 32% presented the reserve as part of the shareholders' equity. A similar analysis of 287 balance sheets for 1955 shows that 36% of the 128 balance sheets which showed reserves on the liability side followed the presentation recommended in Bulletin No. 9. Although there appears to be a slight increase in this percentage, it does not demonstrate any clear-cut approval of the presentation considered by the committee to be most desirable.

An analysis of the type of items shown as reserves on the liability side of these balance sheets indicates that very few, if any, represent actual liabilities, but most of them are clearly segregations of earned surplus. As such they should be set out as part of the shareholders' equity.

Bulletin No. 11 — Surplus

Recognizing the deficiencies of current practices in the presentation of the items of corporate surplus, the committee presented, in August 1955, specific suggestions which they felt would eliminate the inconsistencies and ambiguities which had been created on many financial statements. It emphasized that adequate description and classification of the items of surplus are vital to clear presentation. Bulletin No. 11 stated that:

The interests of clarity will be served if the word surplus is qualified, in every case in which it is used, with wording related to the method of classification

of the various elements of surplus, and to the statutory requirements, if any, as to designations or descriptions.

An adequate view of a company's affairs requires information as to the source of any surplus shown on the balance sheet. A basic distinction exists between amounts received by way of contributions and amounts earned in the conduct of the business, (these being the only sources of realized surplus), and this difference should be recognized by classification on the balance sheet.

That there was a need for some improvement in this section of financial reporting was clearly brought out in the discussion of practices followed in the presentation of shareholders' equity, appearing in this column in the February, March, April and May 1956 issues of *The Canadian Chartered Accountant*. At that time it was pointed out that there was a rather alarming lack of uniformity and clarity in the terminology employed to describe the various elements of corporate surplus. Little effort had been made to classify the various components. What classification had been undertaken was done for the most part on the basis of terminology rather than source.

Sufficient time has not yet elapsed since the release of Bulletin No. 11 to arrive at an informed opinion as to the general reception awarded the committee's suggestions. The auditor's reports on 60 of the 287 financial statements analyzed for 1955 were dated prior to September 30, 1955, the approximate date of release of Bulletin No. 11. These balance sheets, for the most part, displayed the same common inconsistencies and ambiguities as instigated the committee's study of adequate presentation of corporate surplus.

It would be a Utopian wish to ex-

² Bulletin No. 9.

pect that the techniques used in the 227 balance sheets prepared subsequent to September 30, 1955 would show any marked degree of acceptance of the suggestions included in Bulletin No. 11. However, it is encouraging to note that at least some of these balance sheets have followed the recommended procedures of disclosure. In analyzing the presentation of the various elements of corporate surplus in these 227 balance sheets, reserves, appraisal increase credits and excesses arising on consolidation were considered separately from the items of earned and contributed surplus.

Of the 227 balance sheets, 137 showed a single figure for surplus. In all but one case, the accompanying statement of surplus provided no indication that this item represented anything other than amounts earned in the conduct of the business. In the one exception, it showed that the balance represented, in effect, accumulated earnings and contributed surplus, the latter being described in the statement as "distributable surplus".

In 21 cases, all the items set out in surplus represented amounts derived from earnings. However, in 11 of these 21 balance sheets, no effort was made to indicate this common source. In the remaining 10, all of the items were clearly classified as elements of earned surplus. This was accomplished by grouping the items under a descriptive heading as suggested in Bulletin No. 11, by disclosing the miscellaneous balances in the description of the earned surplus figure and by setting out in the descriptions of the various items that they were, in effect, elements of earned surplus.

In 20 of the balance sheets, corp-

orate surplus was made up of items derived from both contributions and earnings. In only 8 of the 20, was the difference in the sources of the various balances recognized in the form of presentation. Unfortunately, of these 8 balance sheets, 7 did not provide adequate descriptions of the items of contributed surplus, the balances being set independently of earned surplus and described merely as either "Contributed Surplus" or "Paid in Surplus". An additional 2 of the 20 balance sheets in this category segregated the items of surplus under headings "Earned Surplus" and "Capital Surplus".

In the remaining 49 balance sheets it was impossible to determine from the descriptive terminology the actual sources and true nature of some of the miscellaneous surplus items. For example, in 39 of them, corporate surplus included an item which was described merely as "Capital surplus" without any further elaboration or description. No effort was made in any of the 49 balance sheets to recognize and differentiate between the actual source of the elements of surplus.

It was noted in the discussion of the acceptance of the recommendations of Bulletin No. 9 that in the balance sheets for 1955, 36% of the 128 balance sheets showing reserves on the liability side set the reserves out as part of the shareholders' equity. Of the 46 balance sheets using this recommended form of presentation, 35 were prepared subsequent to the release of Bulletin No. 11 and therefore should have been influenced by the committee's recommendations as to adequate classification. However, of these only 6 gave recognition in their presentations to the fact that reserves are in effect a

segregation of earned surplus. The other 40 set out the reserves independently of other balances derived from earnings without any indication of their common source.

Bulletin No. 11 also included specific suggestions as to the presentation of appraisal increase credits. Of the 227 balance sheets prepared subsequent to this release, 18 referred to credits arising from the appraisal of fixed assets. Of these, 11 set out this balance as a separate item in share-

holders' equity, the presentation recommended by the committee. Unfortunately, however, in 12 cases the identifying description of the appraisal increase credit made use of the terms surplus and reserve, a procedure which was classified in Bulletin No. 11 as "undesirable".

(Next month, current reporting techniques in respect to the allocation of income taxes will be compared with the suggestions set out in Bulletins Nos. 10 and 12.)

AN ACCOUNTANT'S LIGHTER MOMENTS

Sir: Like the Gilbert and Sullivan policeman, an accountant's lot is not always a happy one but, as the following instance shows, it is now and again relieved by lighter moments.

A client of ours — a well-to-do man — retired and bought himself a farm in a different part of the country; he proceeded to operate this with results, financially, which are common to that type of farmer — for the first five years or so. After preparing accounts for the sixth year, we wrote to him a letter which began thus:

"We now send you our rough draft copy of the trading account of the farm for the year ended . . . last. You will be pleased to see that there is a net profit of £187 0s. 3d thereon.

"There has been a considerable reduction in the sale of milk and it occurs to us that this may be connected with the reduction in calving which is apparent, as compared with the previous year."

Our client replied thus:

"Para. 1. Thank you. This is indeed a shock!

"Para. 2. This is due to the fact that by a series of abnormal incidents we lost three heifers, who should have given 2,000 gallons during the year. The most extraordinary case turned into a bull, after giving 900 gallons with her first calf. Run a farm and see life!"

Yours faithfully,

Manchester

MASSIAH & BUCKLEY.

—From *The Accountant* July 21, 1956.

BY PETER C. BRIANT, B.COM., C.A.

Current Reading

Assistant Professor,
McGill University

ACCOUNTING

"THE RELATIVE IMPORTANCE OF FIXED ASSETS" by Harold G. Avery. *The Accounting Review*, July 1956, pp. 435-438.

A comparative study of the financial structure and operation of large industrial corporations during the past 18 years indicates a decline in the percentage of net fixed assets to total assets, from 40.6% in 1936 to 31.2% in 1954. The annual depreciation and depletion charge relative to gross fixed assets is reported to have increased from 3.9% to 4.7% over the same period. Relative to net sales, the annual depreciation and depletion charge has decreased from 3.5% to 1.5%.

Professor Avery offers no general explanation for this phenomena. Among possible causes, the following are cited: the decrease in the purchasing power of the dollar; present credit restrictions, accounting for larger amounts of assets being tied up in receivables; the diversification of operations, tending to require greater investments in inventories and receivables; and the enlargement of fund accounts for pension and sinking funds.

"THE FORMAL BASIS OF BUSINESS DECISIONS" by R. G. Chambers. *The Australian Accountant*, April, 1956, pp. 155-174.

After a scholarly discussion of the relationship between accounting and the "decisions of businessmen *vis-a-*

vis the firms which they manage", Professor Chambers leaves his reader with two thoughts. The first is that parts of the fields of study of accounting and economics are concerned with the same thing: the facts of business and the behaviour of business firms and businessmen. In consequence, Chambers thinks that accountants should take a more lively interest in the economic theories of the behaviour of business firms. Secondly, he believes that an attempt should be made to determine "by careful and patient field work" the information businessmen would like to have and the use to which they put the formal information now supplied them. "The justification of accounting practices must remain in doubt," he writes, "as long as there are gaps in knowledge of the part accounting information plays in decision making"

"THE AMERICAN ACCOUNTANT" by W. F. Baxter. *Accountancy*, August 1956, pp. 308-313.

"POINTERS ON IMPROVING THE CONTROLLER'S STATURE" by A. G. Bows. *The Arthur Andersen Chronicle*, July 1956, pp. 171-179.

A three month visit to the United States has left Professor Baxter of London University with the impression that educational and personality problems in accounting may develop as a result of the rise of management accounting. To attempt to dovetail the training for this new field with

the conventional studies in economics, accounting and law would, in his view, result in scrapping the present system and imposing standards of entry so high as to be unpalatable. Furthermore, he doubts whether many men possess the dual personality needed to be at one and the same time a diligent accountant and a member of the management team.

Professor Baxter poses the question whether management accounting will become a specialty within the general framework of accounting, with men in both groups sharing a common educational background; or whether, instead, the two sides will end in complete divorce with different breeds of men separately trained and developed to serve both areas.

Much the same thoughts are implied in Mr. Bows' assertion that controllers have frequently hurt themselves by being short-sighted in building a well-rounded organization within their department. Part of this difficulty he attributes to the fact that many controllers were formerly professional accountants with training and experience substantially different from what the controller's job requires. He apparently would like to see accounting practitioners spend more time in learning to organize their work and delegating responsibility before moving into a controller's chair. A further source of difficulty, he argues, arises because too many former public accountants turned controller rely largely on other former public accountants as their source of employment. He urges members of his own firm to advise clients to select senior members of the controller's department from other sources to provide a balanced group of men for the many types of

work to be handled. The development of such an organization would, he believes, leave the controller with more time to devote to improving his reports and becoming an indispensable member of the management group.

COST

"DIRECT COSTING — ITS NATURE AND SIGNIFICANCE" by E. H. Jones. *The Chartered Accountant in Australia*, April 1956, pp. 547-577.

This long article contains a useful discussion of direct costing. An introductory section contains a list of typical questions that are often asked about the subject. In the second section, the developments in overhead costing which have led to new perspectives as regards the functions of cost accounting are reviewed in some detail. The reasons for development of direct cost techniques, the historical development of cost accounting, the pricing problems of the multi-product firm, and the accounting problems of direct costing are some of the items considered.

Thirteen exhibits ranging from comparative income statements using full absorption costing to a profit graph for a multi-product firm are presented in section three to illustrate the practical application of direct cost techniques.

Younger members of the profession, who may have missed some of the earlier literature on direct costing, will find most of the controversy summarized and illustrated in this article.

AUDITING

"MAXIMUM VALUE FROM AUDITING" by A. H. Hunt. *The Internal Auditor*, September 1956, pp. 50-60.

Mr. Hunt, a management consult-

ant, discusses means by which auditing can become a dynamic force in business management by increasing the quality of the work performed while decreasing costs. Covering the fields of both public and internal auditing, he suggests that quality may be increased by:

1. Providing a proper reporting relationship for the auditor.
2. Providing a broad scope of coverage, so that the audit covers all of the important phases of activity of the organization audited.
3. The auditor adopting a high level approach in his work.
4. Being thorough in the work performed.
5. Providing proper training to employees.
6. Discussing the audit findings with those in charge of the areas audited.
7. Providing good reports.

The following ways are suggested to reduce audit costs:

1. Strengthening the system of internal control.
2. Proper record keeping, to permit easy auditing.
3. The use of statistical sampling.
4. Development of audit programs.
5. The adoption of the natural business year.
6. The development of the internal audit function.
7. Making maximum use of client personnel.

EDUCATION

"EXPERIENCE AND SELF-STUDY IN ACCOUNTING EDUCATION" by H. Heaton. *New York Certified Public Accountant*, July 1956, pp. 414 et seq.

Asserting that there is no substitute for learning by doing, Mr. Heaton, chairman of the New Jersey Education Committee, takes a strong stand in favour of retaining experience requirements for public accountants. The tendency toward minimizing the importance of experience in prepar-

ing for an accounting career, reflected, for instance, in the report of the Commission on Standards of Education and Experience for CPA's, credits, in his opinion, formal education with capabilities beyond its scope.

Citing what seems to him to be limitations of formal accounting courses, the author argues that universities can never bring enough reality into their curriculum to enable students to develop the proficiency in selecting and organizing material, exercising judgment and recognizing problems that can be obtained from a continuing education in public accounting under the close and continuous supervision of a senior. It is apparent, he claims, that elimination of the experience requirement would sever the connection between public accountants and auditing standards. In his view, this would be a body blow from which the profession might never recover.

PROFESSIONAL

"THE FIRST THREE YEARS IN PUBLIC ACCOUNTING" by E. H. Baldridge. *The Arthur Young Journal*, July 1956, p. 28-36.

1. What will I do?
2. Under what conditions will I do it?
3. What will I learn?
4. How will I be judged and paid?
5. What will I achieve?"

These are questions that naturally enter a young man's mind when he contemplates a prospective career. Mr. Baldridge supplies some of the answers, with specific reference to public accounting.

Some comments of note:
What will you learn?

"If I were to pick one reason above all others for starting your career with . . . [an] accounting firm, it would be

because of what you learn . . . I think there is much to be learned about accounting and business in general that can be learned more quickly in public accounting than anywhere else . . .

. . . you will see the accounting system of a business in its entirety. Moreover, you will see the systems of many businesses in many industries . . . If you work for any industrial concern, you will see that segment of one system which surrounds your job. In public accounting you will acquire a knowledge of many complete systems. Moreover, in the course of reviewing a tremendous number of individual transactions, you will learn details of the motivations, methods, and aims of business which are available only to top management and their accountants. The minutes of directors' meetings, contracts of all sorts, and plans still on the drawing board may all come within the scope of the auditor's work. . . .

How will you be judged and paid?

" . . . the factors to be considered (in evaluating the work and capabilities of a junior accountant) include among others the following: knowledge of accounting theory; grasp of audit techniques; judgment; ability to speak and write; initiative; personal appearance; impression on clients; ability to follow instructions and accept criticism; speed and accuracy. . . ."

"VALUATION OF AN ACCOUNTANT'S PRACTICE" by W. I. Ketz. *New York Certified Public Accountant*, July 1956, pp. 436-439.

A study of the transfer of 25 accounting practices reveals that in all cases the purchase consideration was based on gross fees, with individual considerations ranging from 45% to 200% of gross. Terms of payment ranged from 15% to 100% of the purchase price, with the greater number being 20% thereof.

Within the period studied, 20 offers to buy practices were recorded, two

of which offered 100% of gross fees and four 150% of gross. Terms of payment ranged from 2 to 5 years.

Offers to sell, recorded in the 1948-1951 period, averaged 83% gross. Specifically, three prospective purchasers offered 50% to 60% of gross; seven, 70% to 80%; two, 81% to 90%; five, 100% to 110%; and one, 125%.

The author lists the following as the major factors to be considered in acquiring a practice:

1. The gross fees.
2. The additional expense necessary to handle the added clientele.
3. How the new accounts will fit in with the practitioner's present schedule.
4. Whether there are any clients whose work you cannot handle, or do not wish to handle.
5. The impact of income taxes.
6. The amount of and terms of payment for goodwill.
7. The net income remaining after taxes and payments.

BOOKS RECEIVED

"Statistical Sampling for Auditors and Accountants," by Lawrence L. Vance and John Neter; Wiley and Sons, New York, 1956; pp. 310; \$9.00 (To be reviewed)

"Key to Income Tax 1956/57 — Finance Act Edition." Taxation Publishing Company, London; pp. 223; 10/5d post free.

SELECTED READING

Accounting

"Management Accounting in Action" by E. A. Carlson. *NACA Bulletin*, September 1956, pp. 3-12.

"Three Concepts of Business Income" by J. St. G. Kerr. *The Australian Accountant*, April 1956, pp. 139-148.

"Non-linear Depreciation" by H. A. Caraman. *The Accounting Review*, July 1956, pp. 454-491.

"Equipment Leasing" by G. Hoyt. *The Arthur Andersen Chronicle*, July 1956, pp. 195-202.

Auditing

"Application of Statistical Sampling to Inventory Audits" by E. J. Kunz. *The Internal Auditor*, September 1956, pp. 38-49.

Cost Accounting

"Price Decisions — Are Full Costs Relevant?" by F. K. Wright. *The Australian Accountant*, June 1956, pp. 235-238.

"Cost Reduction" by L. A. Stock. *Cost and Management*, July-August 1956, pp. 251-261.

"Special Areas for Cost Reduction" by B. A. C. Hills. *C. & M.* September 1956, pp. 298-311.

Education

"Educational Standards for the Accounting Profession" by N. F. Stevens. *The Australian Accountant*, May 1956, pp. 199-213.

Equipment

"Bookkeeping Machines" by Charles J. Wade. *The Arthur Young Journal*, July 1956, pp. 37-41.

"The Principles and Practices of Machine Accounting" by G. V. Old. *The Accountants' Journal*, May 1956, pp. 354-359.

Finance

"Which Canadian Industry Is the Best Investment?" by Lovink et al. *The Business Quarterly*, Summer 1956, pp. 136-158.

"Financing Pension Benefits" by L. G. Ackerman. *Harvard Business Review*, September-October 1956, pp. 63-74.

"Pension Schemes: The Two Methods" by an actuary. *The Accountant*, August 18, 1956, pp. 151-156.

Management

"Operations Research: Need for Re-evaluation" by G. S. Odiorne. *Michigan Business Review*, July 1956, pp. 27-32.

"Management Accounting or Management Engineering" by F. G. Beard. *The South African Accountant*, June 1956, pp. 80-83.

"The Impact of Automation on Management Accounting" by D. J. Young. *The Accountant*, June 9, 1956, pp. 648-653.

Professional

"Responsibilities of Staff Seniors" by N. A. Bogoluboff. *The Arthur Young Journal*, July 1956, pp. 14-20.

"The Future of the Small Practitioner" by R. C. Rea. *The Illinois C.P.A.*, Summer 1956, pp. 34-42.

Addresses of Publishers

Accountancy (Eng.) Incorporated Accountants' Hall, 24 Temple Place, Victoria Embankment, London, E.C. 2., England.

[The] *Accountant* (Eng.) 4 Drapers' Gardens, Throgmorton Ave., London E.C. 2., England.

Accounting Review, College of Commerce and Administration, Ohio State University, Columbus 10, Ohio.

[The] *Accountants Journal* (N.Z.), P.O. Box 5039, Wellington, C1, New Zealand.

Arthur Andersen Chronicle, 120 LaSalle St., Chicago 3, Ill.

[The] *Australian Accountant*, 37 Queen St., Melbourne, Australia.

Business Quarterly, School of Business Administration, University of Western Ontario, London, Ont.

Cost and Management, 66 King St. E., Hamilton, Ont.

Harvard Business Review, Gallatin House, Soldiers Field, Boston 63, Mass.

Illinois C.P.A., 208 S. LaSalle St., Chicago 4, Ill.

Internal Auditor, 120 Wall St., New York 5, N.Y.

Journal of Accountancy, 270 Madison Ave., New York 16, N.Y.

Michigan Business Review, School of Business Administration, University of Michigan, Ann Arbor, Mich.

N.A.C.A. Bulletin, 505 Park Ave., New York 22, N.Y.

N.Y.C.P.A., 677 Fifth Ave., New York 22, N.Y.

Taxation Publishing Co., 98 Park St., London, W1.

Wiley and Sons, Inc., 440 Fourth Ave., New York 16, N.Y.

Students Department

*Associate Professor,
Queen's University*

NOTES AND COMMENTS

It has occurred to us that it may be helpful to some of our student readers to review certain of the points of income tax law raised in Problem 3 of the "Problems and Solutions" appearing below.

In computing the taxable income of A and B as partners, one-half of A's wife's salary as secretary for the firm has been added back to A's share of the partnership profits. The inclusion of this amount in A's taxable income is required by the Income Tax Act as follows:

21.(3) Where, in a taxation year, a person has received remuneration as the employee of a partnership in which (her) spouse was a partner, the proportion of the remuneration that the spouse's interest in the partnership business was of the interest of all the partners shall be deemed to have been received by the spouse as part of the income from the business for the year and not to have been received by the employee.

The investment income included in B's taxable income is only \$2,400 for the dividends on Oil Producing Canada Ltd. shares, though the amount of the dividends received was \$3,000. The Income Tax Act provides that:

11.(2) — There may be deducted in computing the income of a shareholder from shares in a corporation whose income is from the operation of an oil or gas well, or mine, such amount, if any, as is allowed by regulations.

The Regulations, Part XIII, include:

1300. For the purpose of section 11(2) . . . where a shareholder received a dividend from a corporation carrying on business in Canada the income of which includes mineral profits the deduction allowed is . . .

(c) where the mineral profits of the corporation are equal to not less than 75% of its income, an amount equal to 20% of the dividend.

The "notch provision" may be applied in computing A's taxable income where the business is operated as a partnership. While \$1,100 of A's wife's salary of \$2,200 is included in A's taxable income, the remainder is still income of the wife. Without the benefit of the notch provision, the wife would be subject to tax on this income (after a basic deduction of \$1,000) and her husband, A, would not be entitled to any exemption for marital status. This result would follow from paragraph (b) of section 26(2) which provides that:

26.(2) Where a married person supported his spouse during a taxation year and the spouse

- (a) has income for the year while married exceeding \$250 and not exceeding \$1,000, the deduction of \$2,000 allowed the married person by paragraph (a) of subsection (1) shall be reduced by the amount by which the spouse's income exceeds \$250, or
 - (b) has income for the year while married exceeding \$1,000, each spouse is entitled to the deduction permit-

ted by paragraph (b) of subsection (1) and not that permitted by paragraph (a) thereof;

As a result of section 32(8) of the Income Tax Act, however, it is possible to treat A's wife's income as \$1,000 instead of \$1,100 (and so to exclude her from the need to pay separate tax, and entitle A to some exemption for her), by adding the difference of \$100 directly to A's tax. A's exemption for marital status is then calculated the same as for a wife whose income was over \$250 but not over \$1,000, and following section 26(2)(a) is:

Claim	\$1,250
Less wife's income	1,000
<hr/>	
	\$250

Because A is in the 50% bracket it is worth his while to claim this exemption and add \$100 to his tax.

* * * *

While B has included investment income of \$3,040 in his taxable income, where the business is operated as a partnership, donations may be deducted in arriving at the amount subject to surtax:

32.(4) For the purpose of this section, "Investment income" means the income for the taxation year minus the aggregate of the earned income for the year and

the amounts deductible from income under paragraphs (a), (c) and (d) of subsection (1) of section 27.

Paragraph (a) of section 27(1) permits a deduction from income, in computing taxable income, of up to 10% of income for donations; paragraph (c) permits a deduction of an amount equal to that portion of medical expenses in excess of 3% of the taxpayer's income; and paragraph (d) permits a deduction of \$500 for blindness or infirmity.

In addition, the surtax applies only to the investment income in excess of the taxpayer's exemptions, where these are greater than \$2,400. Section 32(3) of the Income Tax Act states:

There shall be added to the tax of each individual computed under subsection (1) for each year an amount equal to 4% of the amount by which the taxpayer's investment income for the year exceeds the greater of

- (a) \$2,400 or
- (b) The aggregate of the deductions from income for the year to which he is entitled under section 26.

Thus B does not have to pay any surtax where the business is operated as a partnership. His investment income for the purpose of the surtax is $\$3,040 - \$1,750 = \$1,290$, and this is less than his exemptions of \$2,600.

PUZZLE

One night last week Messrs. Baker, Dyer, Farmer, Glover and Hosier were playing poker at their club. Each of these gentlemen is the namesake of the vocation of one of the others.

The dyer was seated two places to the left of Mr. Hosier. The baker sat two places to Mr. Baker's right. The farmer sat to the left of Mr. Farmer; Mr. Dyer, on the glover's right.

What is the name of the dyer?

(Submitted by Mr. L. J. Upton, Port Credit, Ontario)

The solution to this puzzle appears at the end of The Students Department

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants and reflect the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

Intermediate Examination, October 1955

Accounting II, Question 1 (16 marks) and Question 2 (16 marks)

NOTE:

Questions 1 and 2 are based upon the information set out below, but the solution to each question is in no way dependent on the solution submitted for the other.

Y, the president of X Co. Ltd., a small manufacturing business, has appealed to you for help in understanding the financial statements prepared for him by his accountant. He gives you the following condensed statements as at 31 Dec 1953 and 1954:

X CO. LTD.
BALANCE SHEET

	As at 31 Dec	
	1953	1954
ASSETS		
Cash on hand and in bank	\$ 45,000	\$ 4,500
Accounts receivable	126,000	140,000
Allowance for doubtful accounts	(2,800)	(4,500)
Inventories	142,800	164,000
Prepaid expenses	1,000	800
	<hr/> \$312,000	<hr/> \$304,800
Fixed assets	\$ 50,000	\$ 79,000
Accumulated depreciation	(25,000)	(32,150)
Goodwill	10,000	—
Organization expense	2,000	1,600
	<hr/> \$ 37,000	<hr/> \$ 48,450
	<hr/> \$349,000	<hr/> \$353,250

LIABILITIES AND SHAREHOLDERS' EQUITY

Bank loans	\$ 22,000	—
Accounts payable and accrued charges	88,000	\$101,000
Estimated income taxes payable	20,000	20,920
	<hr/> \$130,000	<hr/> \$121,920
Capital stock — 6% preferred	\$ 50,000	\$ 30,000
— Common	100,000	100,000
Earned surplus	69,000	81,330
Capital surplus	—	20,000
	<hr/> \$219,000	<hr/> \$231,330
	<hr/> \$349,000	<hr/> \$353,250

The following is a summary of the operating results for the years ended 31 Dec 1953 and 1954:

	1953	1954
Sales	<u>\$1,000,000</u>	<u>\$ 994,600</u>
Cost of goods sold	<u>\$ 802,000</u>	<u>\$ 795,680</u>
Net profit	<u><u>\$ 49,000</u></u>	<u><u>\$ 49,730</u></u>

PROBLEM 1

Intermediate Accounting II, Question 1 (16 marks)

While Y does not question the accuracy of the financial statements, he cannot understand why there is such a decrease in "Cash on hand and in bank" from 1953 to 1954.

On examination of the records of X Co. Ltd. you determine that during the year ended 31 Dec 1954:

(i) Dividends were paid as follows:

Preferred shares	\$3,000
Common shares	4,000

(ii) A truck originally costing \$3,000, against which depreciation of \$750 had been accumulated, was sold at a profit of \$250. The profit realized on the disposal was included in arriving at the net profit for the year of \$49,730.

(iii) Additional equipment was purchased for \$32,000.

Required:

A statement showing how the reduction in "Cash on hand and in bank" has come about

PROBLEM 2

Intermediate Accounting II, Question 2 (16 marks)

(6 marks) (a) Compute four ratios, for each year, that would be useful in explaining to Y the relative financial position or the results of operations of his business.

(10 marks) (b) For each type of ratio computed in (a), comment on the significance of the information disclosed by a comparison of the ratios for each year.

A SOLUTION TO QUESTION 1
X CO. LTD.

STATEMENT OF RECEIPTS AND PAYMENTS
for the year ended December 31, 1954

Cash on hand and in bank, 31 Dec 1953	\$ 45,000
<i>Add receipts</i>	
Effect of operations on cash (see note)	\$38,000
Sale of truck	2,500
	40,500
	85,500
<i>Deduct payments</i>	
Dividends — preferred	3,000
— common	4,000
Purchase of additional equipment	32,000
Repayment of bank loan	22,000
Redemption of preferred stock	20,000
	81,000
Cash on hand and in bank, 31 Dec 1954	\$ 4,500
Note: The effect of operations on cash is calculated as follows:	
Profit for year	\$ 49,730
<i>Add back</i> expenses not involving an outlay of cash	
Depreciation	7,900
Bad debts	1,700
	9,600
	59,330
<i>Add back</i> amount by which expenses exceed cash outlays	
Decrease in prepaid expenses	200
Increase in accounts payable	13,000
Increase in liability for income tax	920
	14,120
	73,450
<i>Deduct</i>	
Amount by which purchases exceed cost of goods sold	
(increases in inventories)	21,200
Amount by which sales revenue exceeds cash receipts	
(increase in receivables)	14,000
Profit on disposal of truck	
(included in proceeds of sale, above)	250
	35,450
Net effect of operations on cash (increase)	\$ 38,000

A SOLUTION TO QUESTION 2
X CO. LTD.

(a) RATIOS EXPLAINING FINANCIAL POSITION AND RESULTS OF OPERATIONS

	year ended 31 Dec	
	1953	1954
Working capital ratio		
Current assets	\$ 312,000	\$ 304,800
Current liabilities	130,000	121,920
Ratio	2.4:1	2.5:1
Quick ratio		
Cash and accounts receivable	168,200	140,000
Current liabilities	130,000	121,920
Ratio	1.29:1	1.15:1
Collection ratio		
Sales	1,000,000	994,600
Accounts receivable	126,000	140,000
Ratio	7.9:1	7.1:1
Ratio of cost of goods sold to inventory		
Cost of goods sold	802,000	795,680
Inventory	142,800	164,000
Ratio	5.62:1	4.85:1
Profit as a percentage of sales		
Sales	1,000,000	994,600
Net profit	49,000	49,730
Percentage	4.9%	5%
Ratio of long term assets to shareholders' equity		
Net fixed assets and goodwill	35,000	46,850
Shareholders' equity	219,000	231,330
Ratio	16%	20%
Gross trading margin as a percentage of sales		
Sales	1,000,000	994,600
Gross trading margin	198,000	198,920
Percentage	19.8%	20%
Ratio of working capital to fixed assets		
Working capital	182,000	182,880
Fixed assets (cost)	50,000	79,000
Ratio	3.6:1	2.3:1

(b) Significance of the information disclosed by a comparison of the ratios for each year.

Working capital ratio. There has been scarcely any change in the working capital ratio, indicating no significant improvement or worsening in the credit strength of the company. There has been a very small increase in working capital in spite of a fairly substantial profit. Hence the working capital provided by profitable operations has been largely used in the purchase of equipment and the redemption of preferred shares.

Quick ratio. The decline in the quick ratio means that the ability of the company to meet liabilities quickly and without forced liquidation has decreased somewhat. The proportion of current assets in the form of inventories has increased.

Collection ratio. The decline in the collection ratio suggests that the accounts receivable at the end of 1954 are, on the average, somewhat older than at the end of 1953. The decline may indicate that sales are being made at the risk of greater debt losses.

Ratio of cost of goods sold to inventories. The decline in this ratio suggests that sales are not increasing as fast as inventories and that there may be an overinvestment in this asset. It may well be that the inventory at the end of 1954 contains obsolete and slow-moving items.

Profit as a percentage of sales. The fact that this ratio has not changed significantly is evidence that the total expenses are being controlled satisfactorily relative to sales revenue.

Ratio of long term assets to shareholders' equity. The increase in this ratio shows that the company has at the end of 1954 a smaller proportion of the assets invested by shareholders available for financing current operations than at the end of 1953, and that the company is therefore more dependent upon creditors.

Gross trading margin as a percentage of sales. The increase in this ratio indicates slightly more effective buying and selling policies during 1954 and more efficient operation of the plant.

Ratio of working capital to fixed assets. The significant decline in this ratio points to part of the cause of the company's weakened cash position, as seen in the decline of the quick ratio. It appears that fixed assets are increasing at the expense of the company's current position. The redemption of the preferred shares was also a factor in weakening the cash position and was probably premature in view of the company's fixed asset requirements.

Editor's note: The question required the calculation and discussion of four ratios only. The above list is not comprehensive.

Examiner's Comments

(QUESTION 1)

The most common misinterpretation of the question by candidates was to submit an application of funds statement instead of a cash statement.

(QUESTION 2)

Most of the answers submitted were better for part (a) than for part (b). In answering part (b) some candidates did not compare the ratios for each year, but only commented on what the ratio could be used for.

Many candidates would have improved their answers if they had followed these rules:

1. Read a question thoroughly before proceeding to answer it.
2. Answer only what the question asks; for example, when the question asks for four ratios, do not compute eight or nine ratios.
3. Give some thought to the manner of presentation. For example, when computing the inventory turnover, do not show the inventory as a percentage of cost of goods sold; show the ratio as follows:

Cost of goods sold	\$802,000
Inventory	142,800
Turnover ratio	5.62 times

4. Try not to be too wordy; be factual.
5. When the answer has been written, re-read it to check the use of English.

SOLUTION TO PUZZLE

This puzzle can only be solved by (intelligent) trial. Draw a plan of the table; start with any of the clues; then successively add data derived from the others. It will be found that two arrangements are consistent with all the data. They are:

Mr. Farmer <i>dyer</i>	Mr. Baker <i>farmer</i>	Mr. Dyer <i>hosier</i>
Mr. Glover <i>baker</i>		Mr. Hosier <i>glover</i>
	and:	
Mr. Baker <i>hosier</i>	Mr. Farmer <i>dyer</i>	Mr. Glover <i>farmer</i>
Mr. Hosier <i>glover</i>		
Mr. Dyer <i>baker</i>		

We cannot determine all five vocations, but we know that *Mr. Farmer is the dyer.*

News Report of the C.I.C.A. Conference

There was a time not so many years ago when the word accountant called up the picture of a man with steel-rimmed spectacles and eye shade, sitting in shirt sleeves on an uncomfortable stool behind a high desk. The desk was piled with handwritten ledgers and massive journals. The accountant, more likely called the bookkeeper, meticulously entered up columns of figures, or drearily searched for miserable cents that must be found before his books would balance.

Today's accountant needs to be something approaching an electronics engineer to cope with the growing number of mechanical and electronic devices he uses. Actually his outlook is far broader than that, for today the accountant takes his place with the engineer and economist in the management of big business.

V. W. T. Scully of Hamilton, a chartered accountant and vice-president of the Steel Company of Canada, gave a keynote address. He said that today no other professionally trained man is as important to industry as the accountant, for whatever engineers and scientists plan must at some stage be reckoned in dollars and cents.

In a single generation the accountant has outlived and outgrown the bookkeeper idea, Mr. Scully said. The federal government helped when it introduced the income tax back in 1917. Since then, as taxation grew, the expert on figures has become an increasingly important man in commerce, industry and government, and to the individual who must wrestle with his tax return each year.

Once all but a few chartered accountants were in public practice. That is, they worked for individual or company clients on a fee basis. Today more than 40% of Canadian chartered accountants are employed in industry or government service, and the percentage is growing yearly.

James C. Thompson of Montreal, a former president of the Quebec Institute of Chartered Accountants, said nowadays more and more accountants are employed as management consultants and taxation experts. They advise on the purchase and sale of businesses and the form and content of financial statements. They aid management in streamlining clerical routine and give expert financial testimony in courts of law. And, as accountants take a larger place in management, another problem is human relations — the ability to make decisions, to compromise, to get along with people. Some speakers said this is the great weakness of accountants. On this very subject they got some advice from W. G. Mann, personnel adviser to the Bank of Montreal. He said the humanities should get more attention in schools of commerce and accountancy. There should be more human relations in the selections of trainees for accountancy and in all aspects of the profession. Business, he said, is 5% money, 10% material and 85% men.

*Business and Labour Review C.B.C.
Trans-Canada Network, Sept. 13, 1956.*

NEWS OF OUR MEMBERS

Alberta

Clarkson, Gordon & Co., Chartered Accountants, Calgary, announce the admission to partnership of William Macintosh, C.A.

Price Waterhouse & Co., Chartered Accountants, Calgary, announce the admission to partnership of J. S. McGibbon, C.A.

C. W. Richardson, C.A. announces the admission to partnership of Arnold V. Johnston, C.A. Henceforth the practice of their profession will be carried on under the firm name of Richardson and Johnston, Chartered Accountants, with offices at the Central Bldg., 2nd St. S.E., Medicine Hat.

British Columbia

John K. Hancock, C.A. and Richard W. Keenlyside, C.A. announce the admission to partnership of Patrick V. Mylett, B.Com., C.A. Henceforth the practice of their profession will be carried on under the firm name of Hancock, Keenlyside & Mylett, Chartered Accountants, with offices at Ste. 204, 510 West Hastings St., Vancouver and at Abbotsford.

Helliwell, MacLachlan & Co., Chartered Accountants, and Ismay, Boiston, Dunn & Co., Chartered Accountants, announce the merging of their practices with offices at Vancouver, Victoria, Calgary and Vernon.

Manitoba

Maurice S. Donovan, F.C.A. announces the admission to partnership of David W. Stone, C.A. Henceforth the practice of the profession will be carried on under the firm name of Donovan, Stone & Co., Chartered Accountants, with offices at 818 Pacific Ave., Brandon.

Nova Scotia

Wilfred Berman, C.A., has been appointed a full professor of the Commerce Department of Dalhousie University, Halifax.

Price Waterhouse & Co., Chartered Accountants, Halifax, announce the admission to partnership of John V. Criddle C.A.

C. Lloyd McCallum, C.A., announces the opening of an office for the practice of his profession at 166 Hollis St., Halifax.

Ontario

Price Waterhouse & Co., Chartered Accountants, Royal Bank Bldg., Toronto, announce the admission to partnership of Joseph H. M. Wood, C.A.

Geo. A. Welch & Co., Chartered Accountants, and W. S. Stone, C.A. announce the merging of their practices in Belleville. The resident partners will be W. S. Stone, C.A. and R. Irvine, C.A.

Fruitman, Smith & Co., Chartered Accountants, announce the removal of their offices to Ste. 204, 1173 Bay St., Toronto.

Alan W. Jackson & Co., Chartered Accountants, 330 Bay St., Toronto, announce the opening of a branch office at 631 Pembroke St. E., Pembroke. The resident partner will be J. A. G. Noel, C.A.

George A. Touche & Co., Chartered Accountants, announce the removal of their offices to 200 Queens Ave., London.

Quebec

Price Waterhouse & Co., Chartered Accountants, 215 St. James St. W., Montreal, announce the admission to partnership of G. Ian Craig, C.A.

Saskatchewan

R. L. Bamford & Co., Chartered Accountants, Moose Jaw, announce that they have acquired the professional practice of the late Walter C. Jeffery, F.C.A., Weyburn.

Joseph D. Tomney, C.A. announces the opening of an office for the practice of his profession at 201, 1115 Central Ave., Prince Albert.

Seventh International Congress of Accountants

Amsterdam, September 9 – 13, 1957

SPECIAL ANNOUNCEMENT

The arrangements for the 1957 Congress are now at a stage where the Congress Committee would like to receive the names and addresses of those who wish to attend.

Those who are planning to attend are requested to give their name, address, date of birth and function(s) within their professional organization, if any, together with the name of their lady, if she accompanies him, *to the Secretary of their Provincial Institute before December 15, 1956.*

The personal data of these persons will be sent by the said organization to the Congress Committee. On the basis of this preliminary registration the committee will then send the persons concerned a definite registration form together with a provisional program and additional information. Since it is possible to receive a greater number of visitors from abroad than did attend previous congresses, the Congress Committee hopes that a limitation in the number of visitors will not be necessary.

In order to ensure that the many visitors from abroad will be able to find sufficient hotel accommodation, the committee has already made preliminary reservations at hotels in Amsterdam and at short distance. Consequently, it will hardly be possible to make direct reservations. Those who wish to attend are strongly advised to make their hotel reservation through the secretariat of the congress by means of the above-mentioned definite registration form, which the Congress Committee will forward to them in February 1957.

The Congress is organized in Amsterdam from September 9 – 13, 1957, and will be held in the "Concertgebouw".

The Secretariat of the Congress will have its seat in the "Concertgebouw" from September 2, 1957.

The provisional program is as follows:

Monday, September 9, 1957

Morning : Registration

Afternoon: Opening session

Evening : Reception

Tuesday, September 10, 1957

Morning : Business session

Subject: "Principles for the Accountants' Profession"

Afternoon: Two business sessions (simultaneously):

Subjects: "The Verification of the Existence of Assets"

"Budgeting and the Corresponding Modernization of Accounting"

Evening : Concert by the "Concertgebouw" orchestra

Wednesday, September 11, 1957

Morning : No business session

Afternoon: Two business sessions (simultaneously):

Subjects: "The Internal Auditor"

"Business Organization and the Public Accountant"

Evening : Round trip through the Amsterdam canals

Thursday, September 12, 1957

Morning) Excursions

Afternoon)

Evening : Government reception

Friday, September 13, 1957

Morning : Business session

Subject: "Ascertainment of Profit in Business"

Afternoon: Closing session

Evening : Ball

Details about a program for the ladies will be published at a later stage.

The languages to be used during the sessions are English, French, German and Dutch.

At the meeting of delegates at the 1952 congress in London, the president of the congress submitted that for future congresses a financial contribution by all visitors was deemed reasonable. Accordingly the Congress Committee has decided upon a fee of 135 guilders (approximately \$35) as a contribution to the cost of the business sessions and of the record of proceedings which will be published after the congress. The visitors from abroad and their ladies are to be the guests of the sponsoring bodies at all social events.

INSTITUTE NOTES

MANITOBA STUDENTS SOCIETY

University of Manitoba Freshie Week: The accountancy freshmen elected Miss Betty Lee to represent the Faculty of Chartered Accountancy in the annual University of Manitoba Freshie Week Queen contest.

Annual Baseball League: For the third consecutive year, the Peat, Marwick Mitchell trophy was won by a team from the donor firm. Teams ended the season in the following positions: Peat, Marwick, Mitchell;

W. M. Hurley; Millar, Macdonald; Geo. A. Touche; Sharp, Woodley; Sill, Patrick; Price Waterhouse and Provincial Government.

Bowling: The annual bowling league started on Friday, September 21, at the Academy Bowling Alleys.

Six-man Football: The society is again sponsoring a team in the University of Manitoba football league.

Annual Fall Formal: The 28th annual fall

dinner and formal was held at the Fort Garry Hotel on Saturday, October 20. This dinner dance was the official commemoration of the 50th anniversary of the Students' Society.

Annual Meeting: The annual meeting was held in United College on October 2, at which the financial statements were approved. Mr. Don McQueen, C.A., was elected honorary auditor of the society for the next term.

HAMILTON AND DISTRICT C.A. ASSOCIATION

The Hamilton and District Chartered Accountants Association held their first dinner meeting of the 1956-57 season at the Royal Connaught Hotel on Thursday, September 27. The feature of the meeting was a panel discussion on "Recruitment and Training of Accounting Personnel for Industry, Government and Public Accounting". The speakers discussed the problem of attracting sufficient students to the profession in the face of heavy competition from engineering, law, and other professions. Suggestions were also made regarding the type of training required by accountants who are looking for administrative careers in business or government. Members of the panel were: A. W. Parish, C.A., Norman J. Brown, John K. Rumball, W. Wilfred Pollock, C.A. and Lawrence H. Johnston, C.A.

On November 21 a joint meeting will be held with the Lawyers Club of Hamilton.

B.C. INSTITUTE AWARDS FELLOWSHIPS

At the annual meeting of the British Columbia Institute, held on June 7 and 8, certificates of Fellowship were presented to R. R. Keay and C. G. Chambers, both past presidents of the Institute.

Officers and Council elected for the coming year were: president, G. O. Cumpston; vice-president, A. D. P. Stanley; secretary-treasurer, D. C. R. Horne; council members, Ian H. Bell, D. B. Fields, W. G. Holmes,

Miss Audrey E. Jost (the Institute's first woman councillor), W. F. Martin, G. M. Miller, J. S. McVicar, A. J. Shankland, F. E. Walden, F. D. M. Williams.

SASKATCHEWAN INSTITUTE ELECTS FOUR FELLOWS

Four members of the Saskatchewan Institute have been elected Fellows of the Institute. They are G. E. M. Harris, S. O. McMillan, R. L. Bamford and J. A. Kidd.

ONTARIO INSTITUTE

Annual Dance: The Institute's supper dance and cabaret will be held on Monday, November 19, at the Royal York Hotel instead of November 15 as originally planned. This change has been made to accommodate an important organization needing the Royal York's ballroom on the earlier date.

Affiliation: The following have been admitted to membership by affiliation: A. H. Appleton (Eng. 1955), George Baker (Eng. 1953), R. J. Baker (N.B. 1955), R. J. Booker (Eng. 1937), N. R. A. Catchpole (Eng. 1953), L. R. Chew (Inc. 1955), F. J. Cowper (Eng. 1949), B. Goodman (Que. 1931), W. T. Greig (Scot. 1920), J. Hillen (Que. 1955), J. R. Hutchinson (Que. 1953), R. C. Kemp (Eng. 1952), D. J. Macdonald (Scot. 1954), W. E. McLaughlin (Que. 1955), B. P. Mordy (Que. 1952), C. B. Paterson (B.C. 1953), H. D. Pyne (Eng. 1951), E. Rankin (Man. 1941), B. D. Rose (Eng. 1953), L. J. Rowley (Eng. 1934), H. A. Sherman (Eng. 1954), A. W. Wint (Inc. 1955), G. L. Woods (Que. 1954).

Registrations: One week before October 18, the registration date, 360 students had applied for registration. The greatest number to register in any previous year was 368 in 1954. Last year there were 322 and it looks as though this year will create a record.

Practising Members Meeting: On Thursday evening, October 4, there was a panel discussion on sales tax for practising members

in the Toronto area. Seventy were present to hear the discussion by K. LeM. Carter, M. J. Gorman and J. G. McDonald. Three other meetings of this type are being planned before Christmas under the direction of L. J. Smith, F.C.A. and his committee.

New C.A. Club: On October 4, 22 members from Fort William and Port Arthur met for a dinner meeting and organized the "Northwestern Ontario Chartered Accountants Association". F. H. Black, O.B.E., F.C.A. was elected president. An invitation is extended to all C.A.'s in Northwestern Ontario to join the club. J. W. Dixon, C.A. is secretary.

Revised By-Laws: The Legislation Committee has completed its work of drafting revised by-laws for the new C.A. Act. These are to be considered by the Council on October 22 and it is hoped that they will be ready for submission to the members in November.

Personnel Selection in Kitchener: A centre has been established in the offices of Brock, Davis, Dunn and Broughton, 19 King Street East, Kitchener for the Institute's personnel selection tests. Members and students wishing tests should contact D. B. Davis, F.C.A.

Students' Salaries and Staff Practices: 164 offices participated in the survey of

students' salaries and staff practices sent to all practising firms in June. The report on the survey was sent to these offices in July and gave information in respect of 408 partners, 300 employed C.A.'s and 880 students.

Auditors: At the annual meeting Peter Stewart and Martin Landsberg were appointed auditors of the Institute for 1956-57.

C.I.C.A. Executive: J. A. Wilson, F.C.A. was appointed the Ontario representative on the C.I.C.A. Executive at the C.I.C.A. Council meeting in Halifax. Mr. Wilson succeeds J. G. Glassco, O.B.E., F.C.A., the retiring past president of the Canadian Institute.

Library Committee: Approval has been granted for members and students to borrow periodicals from the Institute library. A periodical may be borrowed for a period of not more than three days.

ONTARIO STUDENTS SOCIETY

Dance: The annual students' dance will be held on Thursday evening, December 18, 1956 at the Palace Pier, Toronto.

Monthly Meeting: The first of the regular monthly students' meetings in Toronto will be held in the lecture hall of the C.A. Building on Tuesday, November 13, at 8:00 p.m.

The editor welcomes information for this column. News of members and provincial Institutes' activities should be received by the 14th of the month to appear in the following issue of the journal.

OBITUARIES

MAJ.-GEN. J. G. ROSS

The Institute of Chartered Accountants of Quebec announces with deep regret the death of Major General James George Ross on September 11, 1956.

Mr. Ross was born in Montreal in 1861 and educated at the Montreal High School and the Ontario Agricultural College. After travelling in the Western United States and Canada, Mr. Ross joined his father, P. S. Ross, in the accounting practice which the latter had established in Montreal in 1858.

In 1884 Mr. Ross joined the newly established Quebec Institute as a chartered accountant and he remained a member of that Institute for 72 years, until his death. He was also one of those who organized the Canadian Institute when it was formed in 1902. He was a past president of each of these Institutes.

Mr. Ross was one of five brothers, three of whom joined him in the practice of accounting — the remaining brother, P. D. Ross, founded the *Ottawa Journal* and was its publisher until his death in 1949 at the age of 92 years.

In his youth, Mr. Ross was one of Montreal's most prominent athletes, excelling particularly as a snow-shoer and distance runner. His large collection of trophies was recently donated to the Montreal Amateur Athletic Association, of which he was an enthusiastic supporter throughout his life.

Amongst other activities, Mr. Ross maintained a keen interest in military affairs, receiving a long service medal back in 1907. He was a Colonel in the Royal Highlanders of Canada — predecessor regiment to the Canadian Black Watch. During World War I, Mr. Ross went overseas to organize and head the Canadian

Pay Corps and returned with the rank of Brigadier General. He was subsequently appointed a Major General and awarded the Cross of the Order of St. Michael and St. George, the Volunteer Decoration and the Canadian Forces Decoration. He was a director of the Crown Trust Company and a past president of the Dominion Rifle Association.

In the field of auditing his long career spanned virtually the whole development of the profession in this country. He was for many years auditor of such important Canadian corporations as the Sun Life Assurance Company, the Bell Telephone Company and the Royal Bank. To the end he took the keenest of interest in the affairs of the profession and it was a touching coincidence that just a few hours before his death the C.I.C.A., assembled in its annual conference at Halifax, passed a resolution congratulating him on his long and distinguished career.

To the members of his family the Council and members of this Institute extend their sincere sympathy.

WALTER C. JEFFERY

The Institute of Chartered Accountants of Saskatchewan announces with deep regret the death on August 30, 1956 of Walter Charles Jeffery at the age of 68. Mr. Jeffery, who was taken ill while on vacation, died in hospital at Santa Monica, California.

Born in England, Mr. Jeffery came to Canada in 1911 and settled in Weyburn, Saskatchewan in 1913. He was admitted to the Saskatchewan Institute in 1924 and elected a Fellow in 1939. He served as the Institute's president in 1937-38. For several years he was a member of the Saskatchewan University Board of Examiners in Accounting.

Mr. Jeffery was past-master of Weyburn Lodge No. 20, A.F. & A.M., a past principal of Weyburn Chapter of Royal Arch Masons and at his death was third principal of the Grand Chapter of Saskatchewan. He was also a member of Wa-Wa Temple of Shrine Temple in Regina. He attended Grace United Church, Weyburn.

To his wife and family, the members of the Institute extend their sincere sympathy.

A. D. HOOPER

The Institute of Chartered Accountants of Quebec announces with deep regret the death of Arthur D. Hooper on July 18, 1956.

Mr. Hooper was born in London, England on May 26, 1885 and came to Canada at the age of 18. He became a member of this Institute in 1946 by virtue of his membership in the Corporation of Public Accountants of Quebec. He joined the firm of Oscar Hudson & Co., Chartered Accountants, with whom he served in Fort William and Montreal until 1930 when he founded his own firm, which he was still operating at the time of his death.

Apart from his professional activities, Mr. Hooper was keenly interested in amateur photography, a pastime in which he took a great deal of interest and exhibited much skill.

The Council and Members of the Institute extend to the widow and members of his family their sincere sympathy.

JOHN C. BOUSKILL

The Institutes of Chartered Accountants of Ontario and Quebec announce with deep regret the death of John C. Bouskill on July 31, 1956.

Mr. Bouskill was born in Saltcoats, Scotland and educated in Hamilton, Ontario. He was admitted to membership in the Institute of Chartered Accountants of Ontario in 1933 and to the Institute of Chartered Accountants of Quebec in 1944. In 1937 he joined the staff of The Miner Rubber Company, the following year was appointed an auditor and in 1944 became its assistant-treasurer. His appointment as secretary-treasurer was announced in 1946.

He was a member of the Society of Industrial and Cost Accountants; Canadian Manufacturers' Association, Granby Branch; the Ancient and Accepted Scottish Rite, Yamaska Lodge No. 21 A.F. & A.M. (32nd degree).

He is survived by his widow and two sons, to whom the members offer their deepest sympathy.

EUGENE LAVIGNE

L'Institut des Comptables Agrés de Québec annonce avec un profond regret le décès de Eugène Lavigne le 14 août, 1956.

Monsieur Lavigne était né le 25 juin, 1899. Il recevait le degré de licencié en sciences commerciales de l'Ecole des Hautes Etudes Commerciales de Montréal en 1919 et devenait membre de l'Institut en 1947.

Monsieur Lavigne a occupé plusieurs postes importants dans l'industrie et dans le gouvernement et était cotiseur à l'Impôt sur le Revenu, Gouvernement Fédéral, de 1930 à 1942, pour ensuite se diriger vers la profession à Montréal jusqu'en 1949. Au moment de sa mort il était Chef de groupe à la Taxe de Vente Provinciale.

Les membres de l'Institut expriment leurs sincères condoléances à Madame Lavigne ainsi qu'à sa famille.



SWEETNESS AND LIGHT

*If you can keep your head when all around you
Are losing theirs on gambles left and right,
But making gobs of money in the process;
You start to wonder if you're very bright.*

*If you had only bought that stock at twenty,
Now selling at a cool two hundred five,
You'd really be on easy street, forever,
Instead of struggling just to keep alive.*

*If you had kept that farm your father left you,
Where now a fancy supermarket stands,
You'd never have to skimp to buy the groc'ries;
You'd have a good sized fortune on your hands.*

*If you had bet that long shot at the races,
Which came in paying thirty-five to one,
You could have put an end to monthly payments
And thumbed your nose at every nasty dun.*

*If you had sought uranium in the mountains
Instead of hunting hapless ducks and deer;
Who knows, today you might have many millions
And not be sobbing sadly in your beer.*

*If you had married Bess, the boss's daughter,
Instead of Mabel bless her simple soul,
Or better yet that rich but sickly widow,
You'd now be starring in a playboy's role.*

*If you had not been you, but Joe or Charlie,
Whose ventures always turn to solid gold,
While you are getting poorer by the minute;
Your ulcers then at least would be consoled.*

*If you can dream of all those missed bonanzas,
The Might-Have-Beens that you will always flub,
Yet not completely lose your marbles, brother,
Then welcome to the Second Guessers Club.*

—ANON

Or, as the man said, if you can keep your head when others about you are losing theirs, maybe you just don't understand the situation.

JEAN VALE

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Rates: *Positions wanted, \$7.00 per column inch; Positions offered, \$10.00 per column inch; Open rate, \$17.00 per column inch.*

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PRACTICE WANTED: C.A. wishes to purchase practice, preferably in Montreal area. Partnership or agreement for succession would be considered. Box 605.

PROVINCE OF QUEBEC: Chartered accountant wishes to extend his practice by purchase or succession agreement. Write giving full particulars to Box 603.

CHARTERED ACCOUNTANT with over 20 years in own practice has medical advice to slow down. Discussion invited which might lead to amalgamation. C. J. McCabe, 610 C.P.R. Building, Toronto, Ontario.

FIRM OF CHARTERED ACCOUNTANTS in British Columbia requires recent graduates or chartered accountants. Applicants will be paid commensurate with experience and ability. Preference will be given to those considered to be partnership material. Vacancies available at: Prince George, Terrace, Kitimat, Vancouver. Please address all replies to A. P. Gardner & Co., 1453 Fourth Avenue, Prince George, B.C.

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or

Senior who is writing final this year. Partnership prospects on qualification. Replies to Box 587.

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MANAGERIAL: Challenging opportunity for aggressive executive in the 30 to 40 years age group with degrees in commerce and chartered accountancy with progressive integrated Canadian oil company operating throughout western Canada with head office in Calgary, Alberta. Experience in the fields of management controls, punch card operations, and staff instruction, although not essential, would be desirable. This is a senior position and carries with it a salary commensurate with the position. When replying state age, marital status, past experience and attach a copy of a recent snapshot of yourself. Reply P.O. Box 327, Calgary, Alberta, Canada.

RECENT GRADUATE required by firm of C.A.'s in Toronto. Salary at "going rate" plus profit sharing. Partnership possibilities. Please furnish full particulars concerning prior experience, age and marital status. Box 601.

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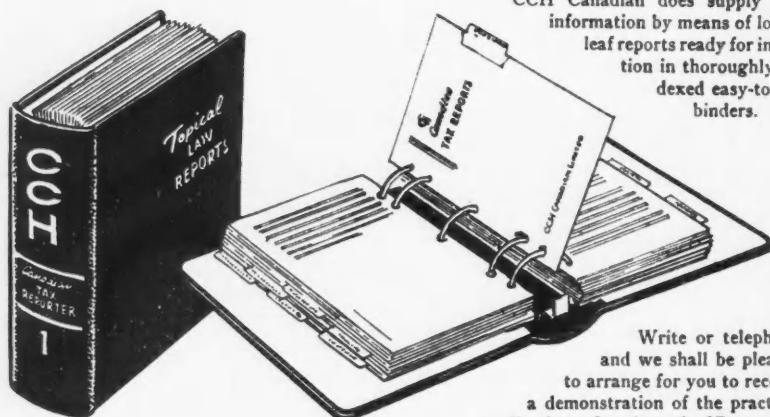
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